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NATIONAL AFFAIRS, POLICY

National Conference on Commodity Price Reform

40060351 Beijing JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese
No 3, 20 Mar 88 pp 2-6

[Article compiled by conference secretariat: "Society of Commodity Prices Holds Annual Conference, Explores Issues Related to Thoroughgoing Price Reform"]

[Text] On 9-13 January 1988 the Society of Commodity Prices met in Shiyuan, Hubei, at the State No 2 Automobile Manufacturing Plant for the second session of its second annual conference during which it reviewed theories regarding the initial stages of socialism, and explored how to implement thoroughgoing price reform. More than 150 people attended the conference, including: Society of Commodity Prices director, Liu Zhuofu [0491 0587 3940]; deputy directors Cheng Zhiping [2052 5268 1627], Hu Bangding [5170 6721 1353], and Zhang Zhuoyuan [1728 0587 0337]; advisors Wu Junyang [0702 0193 2254] and Zhang Yifei [1728 5065 7378]; and society members.

The conference primarily discussed the issues outlined below.

I. Thoughts on Implementing Thoroughgoing Price Reform

Society members debated the view that "price reform cannot be by-passed during economic restructuring" by approaching the issue from various angles, and as a result offered several thoughts on the issue of implementing thoroughgoing price reform.

Argument 1: One assertion is that we should hold off on price reform for the time being. The argument is that we should pursue a policy of refraining from doing anything at first, reserving action for later, while simultaneously creating conditions conducive to price reform through realigning the industrial structure. What is meant by holding off is that, as long as the present economy and commodity prices are unstable, no new price reform measures should be initiated. There should be a fundamental freeze on prices of great consequence to the national economy and the people's livelihood, and tighter controls on unrestrained and floating prices. According to this line of reasoning, if we continue to restructure or decontrol prices at the present time, the result can only be higher commodity prices. Not only is this bad for long-term economic stability, it is inimical to political stability as well. A policy of marking time is the only way to ensure the gains already made in economic and price reform, and will create the conditions necessary for further reform.

Argument 2: Another assertion is that we control the environment while implementing thoroughgoing reform. The ultimate goal is to have price reform essentially

completed within 8 years—creating a controlled market pricing system. According to this argument, subsequent reform first requires a considerably less restrictive economic environment, but improving the economic environment—primarily putting clamps on issuing too much currency—is not so easy. Price reform is possible only in a regulated economic environment, and will be accompanied by a certain amount of inflation. Establishing controlled market pricing requires that the price of various commodities and key production elements not be restrained by an excess of non-economic factors. Rather, we should make regulatory determinations in accordance with market pricing. The state must rely primarily on economic means to regulate the price of specific commodities or key elements. Prices may take one of two forms, state-mandated prices or market-regulated prices. When necessary, the state may guide market prices in a non-coercive manner, and in individual cases may institute coercive guidance on a temporary basis. It is estimated that in 1995 we will still be quite short of this goal; when the appointed time arrives, a considerable number of coercive state guidance prices may remain, state-mandated prices may still apply to some competitive commodities, and state-mandated prices may be somewhat restrictive.

Argument 3: A third assertion is that the emphasis of price reform should be to improve the price control system, especially to establish and strengthen a restricting mechanism, and to improve the system for controlling price differences and price parity. According to this argument, with the present somewhat tight economic environment it would be quite difficult to restructure the pricing system, and the emphasis of reform in the short term should be on improving the price control system, and on pursuing price control through applying indices. This approach entails the following: 1. Concentrate on formulating a "parity price index" between similar classes of products and substitute products, and lay a sound foundation for rationally readjusting price ratios in support of a transition to "controlling through indices." 2. Actively institutionalize a system of restrictions. We must formulate a reasonable "assimilation index" for productive enterprises based on the average ability of the industry to assimilate raw material price increases, as well as determine a "price rise ceiling index" in line with normal changes in product costs, and then guide enterprise behavior by exercising control through indices, and thereby control price levels. 3. Enhance guidance and control of agricultural and sideline product prices, and set maximum purchase prices and minimum guaranteed prices as warranted. The marketing departments will then exercise control in accordance with price differences. Implement a fund system to regulate non-staple food prices. 4. Control price increases for a specified period of time for technology-intensive products which have relatively low energy and raw material requirements, and promote economies of scale.

Argument 4: A fourth assertion is that price reform and reform of the property rights system must be coordinated. People who support this position feel that the reason price reform for capital goods is bogged down is not so much because it does not promote the macroeconomy or that the guiding ideology of price reform is defective; the obstruction really is inherent in the present economic system itself. We see this in the inability of enterprises to withstand a rise in the price of capital goods, and in their financial difficulties. The underlying reason for this is that the existing property rights system is irrational, and various productive elements cannot circulate in a sensible manner. Inherent in commodity price increases is the ability to receive earnings and property. The former is the ability to enjoy an increase in income, and the latter is the ability to receive capital. Of the two, the requirement for the latter is many times the former. If the shock of price reform is laid on the ability to receive capital, its feasibility increases many times over. This line of reasoning is based on the "simulated market" theory of Oscar Lange and further proposes that a socialist economy should not merely "simulate markets," it should "simulate capital" as well. We should establish a new system of property rights in order to solve the main problem, which is a lack of assuming price risks and even various management risks. Restructuring the benefits deriving from price reform itself will not reconcentrate pressures for enterprise income increases or worker benefits. Rather, the onus will be on the owners, and we will see a realigning of the capital structure, and varying increases or decreases in the property of capital management companies. Consequently, resistance to price reform may lessen, while the possibility of government-controlled prices increases. Furthermore, this restructuring also helps to improve resource deployment. Of course establishing a new public capital management mechanism or property rights system can in no way substitute for price reform. How prices are restructured must begin with the pricing system and the mechanism it entails; we must conduct scientific research and design, and implement partial reform as appropriate.

Argument 5: A fifth assertion is that price reform began with agricultural product prices, so intensifying such reform should be based on agricultural product prices. Using grain prices as a reference point, we should rectify farm product price ratios. In addition, in centering on farm product prices we should effect price reform of both agricultural and industrial capital goods as appropriate. According to this argument, only if we persist in emphasizing agricultural product price reform can we adapt to China's national conditions. This is the only way to help strengthen agriculture, the foundation of the national economy, and promote growth and improvement of the market system.

As the conference attendees discussed their positions on implementing thoroughgoing price reform, they also examined such issues as the relationship between stabilizing commodity prices and price reform, and the economic environment required for price reform. Most

attendees felt that an overall rise in commodity prices would be unavoidable during the course of price reform. This is the cost of price reform, but we should keep the cost at a minimum, hold price rises down somewhat, and solve more problems. Some attendees felt that the issuing of an excessive amount of currency was the surface reason for the rise in commodity prices in the past few years, while the underlying cause was our longstanding practice of a "strategy of overtaking." Without regard to what was objectively possible, we stubbornly opted for speed and high output value, which overextended capital construction investment, and resulted in an imbalance of supply and demand. So the basic approach to resolving the issue of commodity price rises should be to appropriately slow down the pace economic development and control inflation.

All the attendees felt that price reform requires a relatively slack economic environment, but there were two views on whether or not such an environment will appear in the next few years. One of the views was that it will be difficult in the near term to eliminate the situation where overall demand is greater than overall supply, and that it will be impossible to eliminate inflation during the same period. Price reform finds itself in a tight economic environment. But irrational prices also are a major cause of the macroeconomy being out of balance. Therefore, we cannot wait for a slack economic environment to reinstate price reform. We must regulate the environment while implementing price reform. The other view was that if only we are resolute, in the not too distant future we can mitigate the acute supply and demand problem, which will create a relatively slack economic environment. This point was borne out in 1981 when China initiated the economic restructuring process. Of course creating a comparatively slack economic environment is difficult, and exacts a substantial price.

II. Capital Goods Price Reform

The conference attendees felt that restructuring and lifting restrictions on capital goods prices since 1979 has promoted coordinated production, and the results should have been positive. But the prices of basic capital goods presently are seriously divorced from value. Price ratios between basic products and processed products, and among processed products themselves, are irrational. Enterprise losses have increased, and the supply of major capital goods remains far short of demand. Consequently, some attendees suggested that price reform of capital goods is still at the "prologue" or "prelude" stage. Discussions at the conference primarily revolved around the following issues related to capital goods price reform:

A. The Double Track System

Some attendees felt a double track system is inherently necessary. When demand far outstrips supply for certain capital goods, and in a situation where the prices set by the state are somewhat low and there is no way to raise

them, extra-plan prices will necessarily appear. A double track system of prices for capital goods represents a gradual approach to economic system reform.

There were three views regarding the comparative advantages and disadvantages of the double track system. One view was that the disadvantages are greater than the advantages, and even that there are no advantages at all. This view maintains that in addition to being corrupt in practice, it does not conform to the law of value in theory. It weakens the function of currency to serve as a general equivalent. A second view was that the advantages outweigh the disadvantages, and that it is an objective reflection of the existence of a dual system. The presence of a dual system makes it difficult to completely eliminate the double track system. The third view was that the number of advantages and disadvantages depends on the size of the disparity between prices within and outside the state plan. When the disparity is within 30-50 percent, the advantages are greater than the disadvantages; in excess of this, and the disadvantages outweigh the advantages.

B. Regulating and Decontrolling Capital Goods Prices

Most of the conference attendees felt that closing out the double track system as quickly as possible and promoting capital goods price reform are tasks of top priority for China's economic development. As for how to do away with the double track system, most all felt we still need to coordinate regulation with decontrol. But views differed as to the steps involved. One view was that we should proceed by taking small steps in order prevent overall price levels from rising too rapidly. Another view was that we should take a bold step in capital goods price reform, and get it over with all at once.

There were several differing views regarding the object of regulation versus decontrol.

The first view was that we should concentrate on regulating the price of primary products by effecting state-mandated prices, and supplement that with state guidance prices and market regulated prices. We should adopt a policy of integrated regulation and decontrol of intermediate products by effecting state guidance prices, and supplement that with state-mandated prices and market regulated prices. We should decontrol final products for the most part, have enterprises consult among themselves and set prices, and supplement that with state-mandated prices and state guidance prices.

The second view was that with an overall supply and demand imbalance, we should gradually manage the prices of a few principal product lines, and focus on capital goods price reform. Product lines for which it is necessary to manage prices include those in the energy, steel, and petrochemical industries.

The third view was that, as a norm, we must regulate products for which raw materials are limited and production is monopolized, as well as some products, although competitive, for which demand seriously outstrips supply, by effecting state-mandated prices. Capital goods prices for the vast majority of other products should be essentially decontrolled, while state guidance prices could be commanded for a few of the products.

The fourth view was that we should consider the place of a product in the national economy, and regulate important products which affect the national economy and the people's livelihood by affecting state-mandated prices. We should gradually decontrol the prices of other products.

In addition, a few of the attendees felt the only alternative is to regulate the price of capital goods by affecting state-mandated prices.

C. Appraisal of the "Shijiazhuang Experience"

One viewpoint was that, since the present double track system could not be immediately eliminated, the Shijiazhuang approach provided a workable path to move from a double track system to a single track system, and should be made national in scope. Furthermore, capital goods entering the market should be expanded in type, scale, and quantity. But as for how to make up price differences, some favored the present Shijiazhuang approach, and some felt that prices should be unified with market prices at the ex-factory link, and that the financial sector should be uniformly responsible for making up price differences.

Another viewpoint was that the Shijiazhuang experience is applicable only to small and medium-size cities, and that it would be difficult to apply to large cities.

III. Agricultural Product Price Reform

Some conference attendees felt that agricultural product price reform is more urgent than capital goods price reform, and should be given ample attention. The conference discussed the issue of intensifying price reform for farm products.

A. Agricultural Product Pricing Problems

Many attendees felt that the present somewhat low overall level of agricultural product prices is a fact which cannot be denied, especially since there has been a relatively large increase in the price of agricultural capital goods in recent years. This has brought a rather rapid increase in farm product costs which, in addition to price increases in consumer industrial goods, have to a considerable extent offset any benefits which should have accrued from increased farm product purchasing prices. But this is by no means the whole of the problem. There are other issues which should arouse the attention of all concerned.

1. The fluctuation in the prices of some farm products is too large. After the prices of most farm products were decontrolled, the peasants organized production in accordance with market demand. But since the existing market mechanism is incomplete and gives a distorted signal, and since there is a lack of effective market control measures, farm product production and management has been carried out blindly. We have experienced a "fleece war," "ramie war," "sweet potato war," and "angora war" in recent years, which have resulted in large shifts up and down in some farm product prices, and the effect has been detrimental.

2. Farm product incidental costs are high, and relative return is low compared to the income of town and township enterprises and the industrial sector. But even though many problems remain in calculating farm product costs and income rates, producing farm products at least generates an income, which is quite different from the pre-1979 situation when farm product prices were seriously divorced from value.

3. The comparative prices of farm products themselves are highly irrational. Since the present supply and demand discrepancy is quite pronounced, market prices have generally been somewhat higher for most farm products, and for grain and oil crops not under contract. This has resulted in a new twist in comparative prices among farm products, especially for grain, cotton, and oil crops which are covered by purchase contract.

B. The Relationship Between Grain Prices and Grain Production

One view was that somewhat lower grain prices is the essential reason for fluctuations in grain production in recent years. It maintains that we must raise grain prices substantially; other measures are merely supplementary in nature. Another view was that in order to increase grain production, in addition to raising grain prices by an appropriate amount, we should have the state exercise comprehensive control by expanding the scale of operations, increasing agricultural investment, and having industry subsidize agriculture.

C. Regulated Versus Free Management in Farm Product Price Reform

1. In order to make farm product price reform more thoroughgoing, we must acknowledge that peasants are commodity producers, and respect their right to manage production on their own. Many conference attendees said that profound changes have occurred in the rural economic situation, a commodity economy is now flourishing, and farm product prices have been decontrolled for the most part. In the future, regardless of whether farm product prices are further decontrolled or more strictly administered, we must acknowledge the peasants as commodity producers. We must employ primarily economic measures to motivate the peasants to produce, and cannot again rely on administrative directives to

arrange agricultural production and procure agricultural and sideline products at low prices. Since this approach has not worked over the long term, the peasants are not receptive to it.

2. Should we emphasize regulating or decontrolling farm product prices in the near term? One view proposed to further decontrol prices, and maintained that the more they are decontrolled the better. Not only can we decontrol the price of grain under purchase contract, we can do the same for the sales price of ration grain, and at the same time subsidize workers. Another view was that the prices of most farm products have already been decontrolled, that further decontrol would be inappropriate, and that we should be more cautious about decontrolling the purchase price of grain under contract and the sales price of ration grain. They propose that we regulate the purchase price of contract grain on a broad scale and in a planned manner.

3. With respect to farm product price management, we should deal with each case on its merits, and offer guidance accordingly. Many conference attendees said that China encompasses a broad area, there are great differences in natural conditions between regions, and economic development has been uneven. Consequently, we should manage farm product prices in a manner consistent with local conditions, and grant greater management authority at the local level. At the same time, we should pay attention to linking interregional prices. This linkage cannot be accomplished by fixing prices administratively, and still less can regions be sealed off.

4. We should employ a variety of measures and strengthen farm product price management. In the conference discussions, some attendees suggested that we reform and perfect contract purchasing methods, and be sure the purchase contracts are truly what the peasants want so they need not feel anxious about them. Some attendees felt we could consider drawing on the experience of other countries and establish a farm product futures market in order to prevent an imbalance in farm product supply and demand, and skyrocketing and plummeting prices. Other attendees proposed that we establish a market adjustment fund or risk fund to prevent excessive fluctuations in farm product prices.

Many attendees felt we should levy a special tax on certain farm products to maintain comparable prices among farm products and preserve a rational structure for the agricultural industry.

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Enterprise, Corporate Ownership Discussed
HK3007051588 Beijing JINGJI YANJIU in Chinese
No 6, 20 Jun 88 pp 31-36

[Article by Ji Peng [4764 7720] of the Industrial Economics Institute of the Chinese Academy of Social Sciences, written in April 1988: "On Ownership by Enterprises and Corporate Ownership Rights"—passages in boldface as published]

[Text] The key to deepening enterprise reform and improving the operating mechanism of enterprises lies in the clarification of the property relations of enterprises.

Unless this is done, it would not be possible to draw a clear dividing line between enterprise property and state property or for enterprises to assume full financial responsibility. The legally prescribed corporate status and limited liability of state-owned enterprises also cannot be established in the true sense of the word.

I. Two Lines of Thought on the Clarification of Property Relations

There are at present two main lines of thought which proceed from property relations to restructure the forms of enterprises under the socialist commodity economy. The first concept is to turn state ownership into ownership by enterprises with collective ownership as reference. The second concept is to establish the corporate property ownership rights of enterprises with the joint-stock system as the target model. If we say that the first concept seeks to change the nature of state ownership of enterprises, then the second only seeks to transform the existing mode of state ownership and change the organizational form of enterprises. However, people often confuse these two lines of thoughts. They say that "enterprises are corporate bodies, and ownership by enterprises is the same as corporate ownership." From this they draw the conclusion that "the system of ownership by enterprises and corporate ownership rights are the same except that one is called 'system' and the other 'rights'." Quite a number of comrades have lashed at the system of ownership by enterprises and corporate ownership rights (share-holding companies), saying that "turning enterprises owned by the entire people into collectively-owned units would change the nature of state-owned enterprises." In point of fact, ownership by enterprises and corporate ownership rights are distinctly different in nature as well as in form.

1. The System of Ownership by Enterprises

The system of ownership by enterprises means turning the assets of existing enterprises from state-owned to enterprise-owned. Comrades who advocate ownership by enterprises mostly emphasize that since "workers constitute the main body of enterprises," the system of ownership by enterprises essentially means that the assets of enterprises belong to the collective body of workers, not the individual workers. There are three ways of bringing about this change: (1) Full compensation. This means that once the enterprise concerned has, over a period of time in the past and in the future, reimbursed the state to the amount invested in the first instance, the assets formed would belong entirely to that enterprise. (2) Partial compensation. This means that starting from a particular point in time, profit retention or additional assets acquired after the repayment of loans to the bank will belong to the enterprise concerned. (3) Uncompensated transfer. This means that the assets of a state-owned enterprise without any vital bearing to the national economy of the people's livelihood will be directly transferred to the enterprises concerned. At present, we are still in a stage of theoretical exploration

insofar as the full compensation and uncompensated transfer models are concerned. The partial compensation model has been tried out in the form of group joint-stock system and "enterprise shares" and it is very likely that it will spread over a wide area.

The advocates of ownership by enterprises stress that their concept is based on the labor theory of value put forward by Marx. They maintain that now that the status of enterprises as relatively independent commodity producers is recognized, the assets formed and the revenue produced by the enterprise laborers—the collective body of staff and workers—after they have repaid with their income from labor the state's initial capital or any outstanding loans, should belong to the collective body of laborers. They call this the concrete expression of the Marxist labor theory of value in the initial stage of socialism.

2. Corporate Ownership Rights

The system of corporate bodies is the product of a highly-developed commodity economy. A corporate body is a collective entity of "persons" (here "persons" may be natural persons or other legal persons) made up of two or more owners (shareholders). It is based on the rights of the owners and has profit-making as its objective, and is a legally-recognized entity with civil rights and obligations distinctly different from individual natural persons.

At the core of the system of corporate bodies are corporate ownership rights. The possession of independent assets is the primary condition for the legal recognition of a corporate body, whose assets come from the capital invested by its shareholders. From the legal perspective, once the shareholder of an enterprise has invested his funds or assets into the corporate body, he will no longer be seen as the main owner of enterprise property. From the entrepreneur of a sole proprietorship, he will have become the shareholder of a corporate body (company). The corporate body then becomes a civil entity that exists on its own without having to rely on the participation of its shareholders. It owns and disposes of the entire property of the enterprise, enjoys the proceeds and other rights generated therefrom, discharges of its civil obligations on its own, and enters into all kinds of relations with other legal persons and natural persons as a legal person.

In order to arrive at a precise understanding of corporate ownership rights, we need to clarify two relationships.

First, the relationship between ownership and share rights. Once a shareholder invests his funds or property into a corporate body, he loses his ownership over this part of property and gets share rights in return. More precisely, share rights are a weakened form of ownership. In terms of ownership, what the shareholder owns is just a "formal" piece of share certificate instead of cash or assets in kind. In terms of application, the shareholder

can only exercise his power through casting his vote as a shareholder. In terms of gains, the shareholder goes to punch his interest coupons at regular intervals but cannot determine the rate of dividend payment on his own. In terms of disposal, no shareholder may unilaterally dispose of corporate property. Shares are transferrable, but cannot be withdrawn. A transfer of shares will only lead to a change in the portfolio of shareholders but will not change the independence and integrity of the property of the corporate body. Share rights are also an indirect form of ownership. The sole link between the shareholder and the corporate body is the shares he holds. With his shareholding he is entitled to collect dividends at regular intervals and to state his views on the behavior of the corporate body at shareholders' meetings. Whether his views will be accepted by the corporate body is at the discretion of the shareholders' meeting and the board of directors. As a result of the unlimited growth in the number of shares owned by corporate bodies in present-day shareholding companies, shareholders' meetings have evolved to become the thinking organ of the corporate body. The board of directors, which is not exclusively constituted by the major shareholders, becomes the executive arm of the corporate body. A shareholder can do nothing except transfer his shares to someone else if his views are not accepted by the board of directors. The corporate body will not mind in the least whether the shares have changed hands. Neither will it have to worry about changes in management and labor. All it has to concern itself with is to maintain a benign cycle of operation of the enterprise.

Second, the relationship between corporate ownership rights and ownership rights of natural persons. In legal terms, corporate ownership rights, like ownership rights of natural persons, refer to the rights to own, use, generate revenue from and dispose of one's own property. However, because a corporate body is after all a social body created by natural persons, there are always shadows of "persons" behind it. The "persons" here are the shareholders of the corporate body. As a collective entity, the shareholders can dictate the behavior of the corporate body. The board of directors as the representative organ of the corporate body must also implement the will of the shareholders' meeting. The collective body of shareholders constitutes the mainstay of the corporate body. It ultimately enjoys the revenue generated by the corporate body, bears property liability, and is entitled to other property rights due to the corporate body. Corporate ownership rights are a kind of derivative ownership rights or quasi-ownership rights different from the ownership rights of natural persons.

In short, corporate ownership rights include two aspects. The first is independent interests. A corporate body not only has profit-making as its target but has independent economic interests. This means that the corporate body will not permit individual shareholders or the state to infringe upon its interests. It attaches great importance

to its own development and will not permit any irresponsible business practice. After handing over tax payments to the state, the corporate body has the right to dispose of its after-tax profits as it sees fit. The second is independent liability. The clear-cut boundaries of the property of a corporate body determines that it can assume economic responsibility on its own. When it incurs losses and goes bankrupt through mismanagement, it only has to bear limited liability up to the level of the assets it owns. The shareholders, operators or employees will not be held personally responsible. This is a salient feature of corporate ownership rights.

II. The Relationship Between the System of Ownership by Enterprises and Corporate Ownership Rights

When we say that there are points of similarities between the two reform concepts of the system of ownership by enterprises and corporate ownership rights, we mean that they both attempt to proceed from the property relations of enterprises to restructure the form of enterprises in our country. They have nothing in common other than this. The differences between them may be summed up in the following four points:

First, in the matter of the main body of enterprises, there are two attitudes among the comrades who advocate ownership by enterprises: Some say that there is no clear main body of enterprises, but that because this system does not have a concrete "personified" main body, the operators and the collective body of staff and workers constitute its main body in effect. Others clearly see the collective body of staff and workers as the main body of enterprises. They boldly put forward the argument that the collective body of staff and workers is a corporate body and arrive at the conclusion that ownership by enterprises means ownership by the staff and workers, which in turn means ownership by the corporate body. It is quite obvious that comrades who advocate ownership by enterprises have in fact regarded the collective body of staff and workers as the main body of an enterprise. On the other hand, the argument upheld by those who advocate corporate ownership rights is that the collective body of owners (shareholders) constitute the main body of an enterprise. The owners may be the individual staff and members who have subscribed to the shares issued by their enterprise, or other citizens. They may even be other enterprises that have the status of legal persons or government organs at different levels that represent the state.

Second, in the matter of the ownership of property, the system of ownership by enterprises abstractly places the property of enterprises under the ownership of the collective body of staff and workers. Under corporate ownership rights, which seek to quantify the total property of enterprises under the individual shareholders, property is more clearly personified.

Third, insofar as the legal form of the organization of enterprises is concerned, the practice of the system of ownership by enterprises will not change the organizational form of an enterprise. It is still exclusively owned, although in the present case the state has been replaced by the collective body of staff and workers. And it still operates as a sole proprietorship. In enterprises where corporate ownership is practiced, the main body of owners is pluristic. This determines that they must operate under the organizational form of joint-stock companies. Hence, comrades who advocate corporate ownership rights are also champions of joint-stock companies.

Fourth, insofar as the significance to the reform of state ownership is concerned, the system of ownership by enterprises, which favors the exercise of state ownership by the enterprises, in fact seeks to change state ownership into collective ownership. The idea is to do away with state intervention in enterprises so that the latter can have full autonomy. Corporate ownership on the other hand only seeks to transform the present form of state ownership. It transforms abstract ownership by the state into a concrete form of ownership and changes external management by the state into internalized management. A corporate body should be made up of more than one shareholder. The establishment of corporate ownership rights in publicly-owned enterprises should have the stratification and diversification of the main body of state-owned property as its prerequisite. Through acquisition and transfer of shares, the state would be able to regulate its control over the corporate bodies at any time. Thus, transformed state ownership and corporate ownership rights are not mutually exclusive.

III. An Evaluation of the Two Reform Concepts

1. Some Queries on the System of Ownership by Enterprises

The system of ownership by enterprises is of definite significance to the exploration and perfection of ownership forms within the socialist commodity economy in the course of reform. However, it is not without problems.

To begin with, the system of ownership by enterprises lacks a solid theoretical foundation. Under the present conditions of socialist public ownership, ownership by the whole people takes the form of state ownership. The state, as the embodiment of the will of the entire population, owns the means of production of enterprises and delegates management to the enterprises according to needs. In all state-owned enterprises the staff and workers constitute part of the whole people. This determines that the relationship between the state and the enterprises is not one between the employer and the employee. Neither is it simply a relationship of the exchange of labor power as a commodity. Thus we cannot merely cite the labor theory of value in the

capitalist commodity economy as put forward by Marx to illustrate the relationship between the state and the enterprises in our country. It is also not feasible for us to take this theory as our point of departure and place all or part of the means of production of enterprises owned by the whole people under the ownership of the collective body of the staff and workers of these enterprises. In other words, if we consider the state and the enterprises as the two poles, that is, the enterprise owners and operators, of the socialist commodity economy, then we also must act in accordance with the principle of capital gains in the commodity economy, that is, whoever makes the investment gets the proceeds. If the state placed the initial investment in an enterprise and became its owner, the enterprise will still be owned by the state no matter how much it has "snow-balled." This is in conformity with the principle of ownership returns in China's "General Rules for Civil Law" [minfa tongze, 3046 3127 6639 0463].

Secondly, the system of ownership by enterprises lacks legal basis. China's "General Rules for Civil Law" stipulates that there are two categories of "persons" that can independently assume the rights of civil proceedings. They are natural persons and legal persons. State organs, social organizations and enterprises belong to the category of legal persons. The collective body of staff and workers does not constitute a legal person. It is not an entity of rights and obligations that can take civil proceedings on its own. Thus, the abstract imputation of the property of an enterprise to the collective body of its staff and workers is precarious in itself and cannot dovetail with the laws and regulations currently in force.

Thirdly, the system of ownership by enterprises will give rise to the following problems in practice: (1) How is the property of the staff and workers to be estimated and disposed of when they leave the employ of their enterprise? (2) Since the addition of new staff and workers will lower the fringe benefits of the existing staff and workers, it is likely to be rejected by the enterprises. This will obstruct the rational flow of labor power and go against the implementation of the contract system in enterprises. (3) Abstract ownership by the collective body of staff and workers will encourage the enterprises and their staff and workers to one-sidedly go after the maximization of short-term returns and revenue and forget about profit targets and social benefits. (4) Since there is a vast difference between the initial property status of different types of enterprises owned by the whole people, the practice of the system of ownership by enterprises is bound create a disequilibrium in terms of property possession and returns between different enterprises and their staff and workers. (5) The system is not conducive to the deepening of horizontal economic ties between enterprises. When a number of enterprises under different forms of ownership merge into one, the lack of clearcut property rights resulting from the non-personification of the subject of property rights under the system of ownership by enterprises will make it impossible to determine the ownership of shares by the collective body of staff and workers. Due to policy differences,

there will also be substantial differences in property possession between the original collective body of staff and workers and the collective body of staff and workers after the merger. In the end, this will create contradictions between different collective bodies of staff and workers and make it difficult to develop horizontal economic ties in depth.

2. The Revolutionary Significance of Corporate Ownership Rights

First, the establishment of corporate ownership rights has precipitated the realization of large-scale socialized production and promoted the development of the commodity economy. For the first time in history, enterprises can stand on their own without the backing of the capitalists and can engage in economic activities in their own name as "persons" with boundless vitality. The most typical organizational form of corporate bodies is the joint-stock company. The establishment of the status of a joint-stock company as a legal person has sped up the process of the centralization of capital. Through investment in the form of share subscriptions, huge amounts of individual capital and idle funds are amassed and invested into the sphere of production, thus promptly alleviating the growing contradictions between the socialization of production and the private possession of the means of production in the capitalist commodity economy. This will make it possible to achieve large-scale socialized production and promote the development of the the capitalist commodity economy.

Secondly, the property of a corporate body has the nature of social property. The most important theoretical support for the establishment of corporate ownership rights is the logical conversion between ownership and share rights. The owner of capital acquires share rights when he invests his capital into a corporate body, but he does not have ownership of the property of the corporate body. The corporate body, on the other hand, has secured the primary condition, namely, independent property, that will enable it to play its part on the "stage" of the commodity economy. The capitalist who has retired "backstage" receives the following actual benefits: First, limited liability, which means that he no longer has to worry about losing his entire fortune because of mismanagement. Second, equity control which is more beneficial in real terms than capital ownership. If we say that in the past a capitalist must own 100 percent of the shares of an enterprise in order to control it, following the emergence of corporate bodies, he can control the same enterprise by holding 50 percent or less of the shares, and invest the remainder of his assets into other enterprises. The establishment of corporate ownership rights has apparently enabled the capitalists to "put their fingers in different pies." With their total capital remaining unchanged, they can secure rights of capital gains and equity control many times greater than what they had before. They can absorb surplus value from different dimensions while greatly reducing the risks they have to take. However, the emergence of

corporate bodies poses a vexing problem to the bourgeois jurists: Private ownership is the sacred guiding principle of capitalism, but the emergence of corporate ownership rights runs counter to the conventional jurisprudential theory of private ownership. All the actual benefits brought to the capitalist by the corporate body are based on the theoretical premise that the capitalist must transfer his ownership of private property. No doubt corporate ownership rights are the negation of private ownership rights in terms of the principle of law. This puts the bourgeois jurists in a dilemma: They cannot recognize the actual benefits enjoyed by the capitalists without negating private ownership rights, and they cannot defend conventional private ownership rights without cutting the source of revenue of the capitalists. The choice made by the bourgeois economists and jurists is totally pragmatic. On the one hand they recognized the corporate bodies—joint-stock companies—and, in the light of actual conditions, formulated all kinds of laws and regulations and management methods to improve the corporate system. On the other hand, they kept unusually quiet on the theory of the conversion between corporate ownership rights and share ownership. This is why it is so difficult to find a book on corporate ownership rights in the West where joint-stock companies are developing on an unprecedented scale. It is quite obvious that in a sense corporate property has the attributes of social property. Marx once looked upon joint-stock companies formed on the basis of the corporate system as "a transitional form in the transformation of the capitalist mode of production into an amalgamated mode of production." Hence, corporate property should also be regarded as social capital as opposed to private capital.

However, it must be pointed out that although corporate ownership rights and capitalist private ownership ownerships are mutually exclusive in terms of the principle of law, in real economic terms there is no need to change the capitalist ownership system. This is because in actual economic practices, corporate bodies like joint-stock companies do not have a specific system of ownership of their own. The system of ownership is different from ownership rights. The former falls within the economic category while the latter is a legal concept. The form of the system of ownership ultimately determines the nature and contents of ownership rights, and the legal system of ownership rights has an important part to play in recognizing and protecting the form of the system of ownership that is beneficial to the ruling class. However, the establishment of the system of ownership rights in law not only serves to protect the ownership of existing social wealth, it also serves to ensure the establishment of a set of effective business guidelines between producers in a commodity economy and to promote the reproduction of material wealth in society. This gives the system of ownership rights a degree of flexibility. Under given conditions, ownership rights may exist independent of specific relations of ownership. Insofar as the theory of corporate ownership rights is concerned, it is

there only because there is a need to provide an organizational form—joint-stock companies—for the development of the commodity economy. In a joint-stock company the nature of its ownership system ultimately determines the capacity and status of its shareholders. In the capitalist relations of production, the fact that corporate property has the nature of social property does not change the capitalist private ownership system itself.

Third, the establishment of corporate ownership rights has brought about the separation of ownership rights and the power of operation within the joint-stock companies. On the whole, the selection and appointment of the company manager is no longer subject to the restriction of whether or not he holds any shares or how many shares he holds. This makes it possible to enlist able men in every way possible. As a result of the separation of ownership rights and the power of operation, the management function can stand on its own, independent from capital, and become a special social function. The owners of capital (shareholders) no longer has any direct part to play in business management and social production. This is conducive to the optimized allocation of social capital and human resources.

3. The Establishment of Independent Corporate Property Ownership Rights Is of Great Practical Significance to Our Country

To begin with, only when corporate ownership rights are established can state-owned enterprises truly act as legal persons that are independent and responsible for their own profit and loss. Although the legal person status of enterprises owned by the whole people in the socialist commodity economy was established in China's first "General Rules for Civil Law" adopted at the fourth plenary session of the Sixth NPC in 1986, enterprises owned by the whole people not only have not truly become corporate bodies but are very un-enterprise. This conclusion is based on the following two points: First, under existing conditions of state ownership, state-owned enterprises are divided into two parts. The first part is composed of enterprise owners—government departments at various levels, which exercise management and control over the enterprises from the outside through administrative means based on ownership rights. The second part is composed of "enterprises" which only have the power of operation. This division is bound to create conflicts of interests between the enterprise owners and operators. In the legal sense, the owner constitutes the main body in enterprises of all nature. In the commodity economy, if an enterprise does not have an owner as the main body, it will lose the fundamental attribute of an enterprise. First, even if the state in its capacity as the owner becomes part of an enterprise, all that has been taken care of are the attributes of an enterprise. On account of the unitary system of owners (shareholders), the attributes of legal person still cannot be realized. As we all know, a corporate body is the amalgamation of owners. This is the major distinction between a corporate body and sole proprietorship which

is not a legal person. The recognition of existing state-owned enterprises as legal persons imply recognition of the presence of an "one-man legal person." This situation is not only resented by the well-developed countries in the West where the legal system is already quite perfect. Even in our country, it fails to provide any solution to the problem of the lack of a clearcut definition for the subject of the corporate body and the subject of state property, as well as for enterprise property and state-owned property. Under such circumstances, it is of utmost importance that we should restructure the form of enterprises in our country through the establishment of corporate ownership rights so that state-owned enterprises can truly become legal persons that are independent and responsible for their own profit and loss.

Secondly, through the establishment of corporate ownership rights we can transform the existing form of state ownership. The owners (shareholders) constitute the main body of the corporate body. Hence, in order to set up a model for public-owned enterprises in our country through the establishment of corporate ownership rights under the socialist commodity economy, we must transform the existing unitary system of state ownership. If we say that in the capitalist countries the establishment of corporate ownership rights means the pooling of small amounts of capital into a huge sum of social capital, and that the main body of ownership rights tends to grow from small to big under capitalism, we would say that in the socialist commodity economy the main body of unified state ownership will disintegrate into a number of main bodies bearing traits of public ownership. Thus the main body of property rights can be divided into smaller bodies.

Just as the establishment of corporate ownership rights in the capitalist economy will not ultimately change the capitalist private ownership system, the establishment of corporate ownership rights in state-owned enterprises under conditions of the socialist commodity economy in our country also will not change the nature of the state ownership system. If the equity of an enterprise is controlled by representatives of the state ownership system, naturally that enterprise is in the nature of a publicly-owned enterprise. Different main bodies of owners that represent the state ownership system may also make timely readjustments in their control over the corporate bodies by constantly changing the proportion of their shareholding or controlling shares. In this way, the independent property rights of the corporate body in a joint-stock company and the necessary control exercised by the state in its capacity as a shareholder of that corporate body are united as one. The establishment of corporate ownership rights will give manifestation to the principle of a predominantly public ownership system on two levels: First, within the framework of the state, the economic sector under public ownership has absolute predominance over the private and foreign-owned sectors. Second, within the corporate body, the pluralist main body that represents state ownership constitutes the major shareholder and plays a dominant role; it also

absorbs the right amount of shares from sectors other than the state-owned economy. This profound change is no doubt an important development of the theory of the socialist ownership system.

The concept which confounds the relationship between the ownership system and ownership rights, maintains that there does exist a kind of corporate ownership system in the economic society and attempts to replace the state ownership system with the corporate ownership system² is bound to lead the corporate ownership system toward the system of ownership by enterprises. I do not think I can subscribe to this idea.

Footnotes

1. Marx: "Das Kapital," People's Publishing House, 1975 edition, Vol 3, p 498

2. Han Zhiguo [7281 1807 0948]: "On the Corporate Ownership System," GUANGMING RIBAO, 17 December 1987

JINGJI YANJIU Article on Wealth, Adaptability
HK1707060088 Beijing JINGJI YANJIU in Chinese
No 5, 20 May 88, pp 28-42

[Article by the Synthetic Problems Study Group, Institute of Development: "China's Development: Growth of Wealth and System Adaptation—Further on the New Stage of Growth of the National Economy"—passages within slantlines published in boldface]

[Text] 1. In 1985 in our research report on the "New Stage of the Growth of the National Economy and Rural Development" and through an analysis of the economic development from 1978 to 1984 we made the following observations: Seen as a whole, in our country the economic development stage in which the people take as the center dressing warmly and eating one's fill has been concluded and, adapted to it, the development stage of the rapid growth of the national economy through reliance on the growth in circulation of farm products and low-grade industrial products has also been concluded. From now on the pattern and speed of the growth of the national economy will to a great extent be determined by whether or not it is possible to find new promotional causes so as to form a new industrial structure to satisfy the new consumption demand. China is currently proceeding toward a new stage of growth the principal characteristic of which will be a large change in the structure. China's economy will meet with an unprecedentedly big and important transformation and the original economic structure and system, including the regulation and control mechanisms of economic operations up to the style of living and value concepts, will all face new challenges.¹ Facing the rich practices in the development of China's economy in the 3 years since publication of the above-mentioned report, we feel that

there is a need, through analysis of China's economic growth from 1984 to 1987, to examine, supplement, revise and correct the original understandings.

Part 1: Changes in the Pattern of the Growth in National Wealth

2. From 1984 to 1987 the scale of China's wealth continued to grow at a high speed. The average annual growth rates in the major macroeconomic targets were: GNP, 18.1 percent; national income, 17.9 percent; and per capita GNP and average annual growth in national income respectively 16.6 percent and 16.4 percent, faster than the growth rates in 1979 to 1984.²

During this stage the most noticeable changes in the pattern of the economic growth were: (1) Slowing down of the growth speed of agriculture after an abnormally high-speed growth; and (2) Extremely high speed of growth in non-agricultural trades (particularly industry) (See Table 1). This illustrates that the structure of the cause of the growth of the Chinese economy has begun to changes.

Table 1: Developments in the Composition of the Growth in China's Economy

	Social Gross Output Value	Agriculture	Non- Agriculture
	Percent	Percent	Percent
1983's increase over 1980	30.41	42.11	26.98
1986's increase over 1983	70.44	46.09	78.42
1986's increase over 1980	122.26	107.60	126.55

Source of information: Footnote 3: Ibid, p 36

3. From 1979 to 1984, the average annual growth rate of agriculture (not including industries at village level or below village level: same below) in China was 7.98 percent and that of the plantation trade was 6.77 percent³. These surpassed the normal growth rates in agriculture after World War II (from 1965 to 1980, the average annual growth rates were: low-income countries, 2.7 percent; medium-grade income countries, 3.5 percent; developed countries, 1.2 percent; and all the developing countries and regions, 3.1 percent)⁴. They also greatly surpassed the normal growth rates of agriculture in China (from 1953 to 1978, China's average annual growth rate in agriculture was 2.88 percent and that in the plantation trade was 2.51 percent)⁵

According to a quantitative analysis, assigning production responsibilities on the household basis enabled China's agriculture, in the years 1980 to 1984 to increase the productivity rate of its main elements by 20 percent, or, it may be said, to over one half of the 38 percent growth rate in the plantation trade during the same period⁶. An important condition in support of the abnormal growth

in agriculture during this period was the presence of a protractedly restricted farm products market to absorb at all times the supply of surplus and additional farm products.

4. Following the spreads in 1983 to the whole country of the measure of assigning production responsibilities on the household basis, the effects of an emergency type of mechanism for improving agricultural production were reduced. This definitely did not imply that the measure of assigning responsibilities to the household had lost its effect but meant that agriculture no longer depended, for pushing its growth, on any suddenly emerging type of positivism with a sort of liberating nature. Rather, it has shifted to reliance on normal measures including changing the composition of agricultural output, maintaining in a sustained manner technological progress, a more plentiful input of modern elements, and undergoing a series of fostering and development in the socioeconomic system needed for commercializing agricultural production. International experiences and China's realities have both shown that doing these things would definitely not be as easy as releasing the potentialities which had been severely suppressed from an extremely irrational old structure. Hence, regarding the coming logical conclusion of the extra high-speed growth in agriculture, nobody can do anything about it.

The above analysis can be examined and proven. In the following we have compiled a table (Table 2) in which agriculture in China from 1984 to 1987 was sub-divided into plantation trade output and non-plantation trade output and the constant prices in 1980 were used to record the relevant figures and on the basis of the table drawn a diagram showing the changes in the curves of actual agricultural production in China from 1983 to 1986 (See Table 2):

Plantation Trade Output, Non-Plantation Trade Output and Gross Output in China's Agriculture (1984-1987)

United:
hundred million yuan

	1984	1985	1986	1987
Plantation trade output	1966.2	1923.2	1945.4	—
Increase over preceding year: (percent)	9.9	-2.0	0.9	—
Non plantation trade output	848.9	983.9	1065.3	—
Increase over preceding year: (percent)	18.1	15.9	8.3	—
Agriculture's gross output	2815.6	2912.1	3010.7	3152.2
Increase over preceding year: (percent)	12.3	3.4	3.4	4.7

Source of information: Statistical Yearbook of China 1987, China Statistical Publishing House, 1987 Edition, p 157

From this table we can draw the following conclusions: (1) the curve for the gross output in agriculture in China all along has maintained a position each year shifting to

the right, that is, agriculture's gross output every year has kept on increasing and there has been no case of agriculture "turning to stagnation and depression". (2) The extent of the shift to the right of the curve of gross output became mild or placid after 1984, that is, returning to the characteristic of the speed of conventional growth. (3) Changes in the basis composition of agricultural output speeded up after 1984. Summing up, it may be said that China's agriculture, after having reached a new level, turned from growth at a super-conventional high speed to one at a conventional speed.

5. In stark contrast with the reduction in the growth speed of agriculture was the quick and sharp growth in the non-agricultural sector, particularly industry, from 1984 to 1987. In 1986, the output value at comparable prices of non-agricultural industries and trades in the whole country increased by 20.7 percent over the preceding year, of which 16.6 percent came from the growth in the industrial sector; in 1986, the growth of the non-agricultural industries and trades was 19.4 percent of which 16.3 percent was accounted for by the industries⁸. In 1987, the growth rate of industry again surpassed the preceding year by 16.5 percent⁹. Comparing this pattern of growth with that before 1984, a slight difference may be found in that the rapid growth in industry no longer principally depended on reducing the relative weight of heavy industry. In 1984, China's light industry occupied a relative weight of 49.8 percent among the industries, an increase of 7 percent over 1978 but from 1985 to 1987 it dropped to the average level of 48.8 percent¹⁰. This shows that changes in the grades of demand in the consumer goods market can only be met by gradually expanding the heavy manufacturing industries (particularly revolving around the manufacture of the equipment for production of the newly rising industrial consumer goods and the manufacture of other intermediate products) and the corresponding expansion of the raw materials industries.

In this growth of the whole non-agricultural industries and trades, the relative weight occupied by the growth in the rural non-agricultural industries and trades has been daily expanding. From 1984 to 1986, of the 499.5 billion yuan of newly increased output value of non-agricultural pursuits in the whole country, 36.7 percent was accounted for by the rural non-agricultural pursuits¹¹. This was a relatively large and important change in the production structure in China. Since this growth in the non-agricultural pursuits was realized by reducing the speed of growth of agriculture, it has played an important role in maintaining the monetary income level of the peasants and in turn in expanding the scale of the domestic markets. According to a sample survey, in 1985 the peasants' monetary income volume derived from non-agricultural pursuits increased by 19.7 percent over the preceding year and in 1986, the increase was 11.6 percent¹².

6. The changes on the two sides mentioned above centrally manifested a fall in agriculture's portion. In 1984 the ratios occupied by agriculture in the social gross

output value, national income and total investment were respectively 24.41 percent, 39.84 percent and 68.36 percent; in 1986 they were respectively 21.16 percent, 34.92 percent and 59.41 percent. In 2 years' time, the fall was from 3 to 9 percent¹³. This shows that the structure of China's national economy has begun to change greatly.

7. Basically the above-mentioned changes in the production structure occurred in the course of seeking changes in demand. From 1984 to 1987, the average annual growth rate in the scale of China's gross demand reached over 20 percent¹⁴. This expansion in gross volume was built on the basis of changes in the demand structure. (1) The consumption portion of the national income dropped from an average of 71.1 percent from 1981 to 1983 to an average of 66.2 percent from 1984 to 1986; the accumulation portion rose from 28.9 percent to 33.8 percent. (2) in the gross consumption, the residents' consumption portion showed a slight fall (from an average of 88.1 percent to 87.2 percent)¹⁵; while the social consumption portion rose slightly. (3) In the residents' consumption, "Engels' Effects" began to appear; according to an estimate made on the basis of urban and rural household materials, from 1984 to 1986 the proportion of the food consumption of the whole body of residents out of the gross consumption dropped by 4.4 percent and the portion of the non-food consumption demand was expanded. (4) The share occupied by residents' savings in the national net savings volume rose rapidly, between the years 1984 to 1986 a rise of 5.9 percent was made, and the ratio went up to as high as 37.4 percent¹⁶, forming an important source for the domestic fund accumulations and supporting the progressive and sustained increase in the national gross investments. In recent years, the rapid changes in the demand structure have posed an unprecedented force of pressure on the elevation of China's industrial structure.

8. The extent of the Chinese economy's dependence for existence on foreign trade is unprecedentedly high. According to the maritime customs statistics, in 1987 the value of China's gross volume of import and export trade amounted to \$82.7 billion, being over 25 percent of the country's GNP of the year; adding to this the non-trade intercourse, foreign loans and foreign capital, country-to-country cooperation in technology and labor services and international tourist trade, over one-third of the gross scale of China's economy had direct liaison with international intercourse.¹⁷ If we take into consideration the fact that in 1983 the gross volume of China's import and export trade had occupied only 15.3 percent of the GNP,¹⁸ then we can imagine the speed of China's change in this connection. The unprecedentedly growing influences from the outside world have become a basic force in speeding up China's modernization. They have brought to China new stimulation, new opportunities and new forces of pressure. They have demanded of us to react with a daily increasing frequency to the economic changes in the world outside.

In recent years the degree of the reliance of the growth in the economic gross volume of China on import has been greatly increased while on the other hand the ability of the production system to become adapted to the changes in demand following the increases in income depends to an even larger extent on imports. This situation stimulates China to speed up the realization of renovating the industries, renovating the technologies and renovating the structure and system.

9. Between the above-mentioned various changes in production, demand and foreign trade there exists an innate relationship: Growth in the income level has led to the renewed fall in the ratio spent on consumption on the part of the residents and has begun to manifest the "Engel's effects," and this corresponds to the fall in the ratio of agricultural output; the rapid development of non-agricultural pursuits follows after the trend of a rise in the proportion of non-food consumption, particularly the rise in the demand for the newly rising industrial consumer goods; elevation of the degree of dependence on foreign trade has opened up the road to the utilization of net inflow from the outside to speed up the further elevation and improvement of China's industrial structure; and the shift of even more labor force to departments with relatively high productivity rates has rendered support to even speedier growth in the income level. Looking at the entire special features and the basic trend of the changes, it may be seen that China's economic growth in recent years has shown that the country has shaken off, and in an unstoppable manner, the shackles of the structure of a period of low income and has begun to progress in the direction of an economic structure with medium-level income. China has begun to shift from the development pattern in the years 1979 to 1984 when basically handling the economic potentials of the original structure had been principally counted upon to the development pattern in the years 1984 to 1987 when changing and reforming the structure were principally counted upon. This constituted the basic motive force for China's growth in wealth in recent years but was also the general background for the newly rising series of economically unstable trends.

Part 2: An Agricultural Crisis Occurring in the Cities

10. Changes of the growth in wealth type cannot ensure China's economy autonomically entering upon the broad of stable development. On the contrary, the friction caused by changes and reform of the economic structure has been aggravated and there has arisen a serious challenge to the adaptability of the economic structure. The most unpleasant picture is that simultaneously with the inroad into the cities of commodities of a flexible nature and of the high-cost type, in the cities a crisis in the supply and demand for food has seriously exploded.

After 1985, China's urban system has from different angles and in varying degrees felt a problem arising in agriculture. From 1985 to 1987 the national commodity price index of retail sales of commodities in the cities

averaged an annual increase of 7.37 percent¹⁹ of which the yearly rise in the commodity price index on food was 8.65 percent and particularly in 1987 an increase of 10.1 percent was recorded over and above the rise of 7.2 percent in the preceding year²⁰; the amount of state finance spent on food price subsidies to urban residents rose sharply; urban food markets were again in a strident state, the use of coupons had to be resumed by the residents in daily life, the phenomenon laxity prevalent in past several years was swept away and the atmosphere of a good crisis spread immediately.

11. The urban food crisis made people recall history of not so very long ago. However, it also brought along many new features. (1) The urban residents' food consumption volume happened to have occasioned a rather sizeable rise in the course of the food crisis. According to urban household investigation materials, in 1984 in the urban residents' households the per capita purchase of meat, fowl, eggs and aquatic products was 38.16 kilograms; in 1986, it rose to 44.52 kilograms, an average annual increase of 8.01 percent, surpassing the average annual increase of 4.96 percent during the years 1982 to 1984²¹. (2) There were also obvious changes in the quality and grade of the urban residents' food consumption. The ratio of outlay for principal food dropped from 25.6 percent in 1978 to 14.4 percent in 1986, coarse food grain basically was withdrawn from consumption (occupying only 3.51 percent of the volume of grain consumption in 1986)²², the consumption volume of food products that had gone through processing and in packaged form rapidly rose, and sales of various kinds of vegetables in slack season as well as sales of small vegetables both clearly increased. (3) Urban residents' gross consumption has considerably improved. In urban residents' families, the proportion of expenses on food outlay out of, on the average, each person's living outlay for the whole year made a sustained rise from 56.66 percent in 1981 to 59.20 percent in 1983, but, beginning from 1984, it made a vertical downfall and in 1986 dropped to 53.46 percent. This illustrated that after 1984 the residents' outlay on living expenses was largely on consumption outside of food. In 1986, compared with 1984, in urban residents' families, the rate in the use of TV sets, recorders, washing machines and refrigerators respectively increased by 5.4 percent, 17.5 percent, 19.6 percent and 9.5 percent and respectively reached 93 percent, 52 percent, 60 percent and 13 percent.²³ Hence, not only the food crisis did not affect the food consumption of the urban residents but also this growth in food consumption did not actually edge out other kinds of consumption. (4) The volume of food entering the urban residents' families through non-market channels noticeably increased. According to a sample survey conducted by the Beijing Municipality Investigation Team, in the fourth quarter of 1987 40 percent of the high-grade rice consumed by families of staff members and workers in Beijing city were supplied by department or organization units and were sold to them at prices 70 percent lower than the market prices. Also according to a survey conducted by the State Statistical Bureau on residents of

some 200 families in Shanghai Municipality, in the Spring Festival season of 1987, 70 percent of the families had purchased, at low prices, goods for the New Year season from government units and this was an increase of 100 percent over 1986. The actual prices paid were lower than the market prices by more than 30 percent. It may be estimated that since there are 100 million households in cities and towns and if 50 percent of them have the privilege of purchasing goods for the Spring Festival at low prices, say at a saving of some 30 yuan per household, then at each yearend food products otherwise valued at some 1.5 billion yuan will be procured free by the residents' households. (5) People were greatly surprised at the coexistence of the phenomena of, on the one hand, state finance being in dire straits on account of the huge spendings on food subsidies and, on the other hand, the enormous wastage of public money. Due to the irrational buying and selling prices of farm products and the continuous rise in the food consumption level of residents in the cities and towns, the burden of expenditures in state finance on food subsidies became heavier day by day, whereas the phenomenon of various kinds of wanton use of public money became increasingly evident and serious. The frightful phenomenon of waste and extravagance in food consumption in the cities and towns and the cry of an "agricultural crisis" formed a stark contrast worthy of people's deep thinking. Those city residents whose interests were truly affected and harmed by this food crisis were the ones with low income, principally personnel who had retired or separated from employment, teachers and public servants who received low salaries but were honest in their duties. They consisted of not more than 10 percent of the population. In short, this food crisis occurring in the cities and towns had special characteristics never seen before in history either in China or abroad. Thus, only 2 to 3 years ago China's peasants, commercial organizations and government were greatly perturbed by the "difficulties in marketing" the large quantities of agricultural products such as grain and cotton, and only 1 or 2 years ago China's urban structure had been greatly pleased by their advantageous buyers' position in the markets for pigs, edible oils and the sugar crop. What then could be the causes for the basic change that had so abruptly occurred in the supply and demand situation of farm products in China?

12. A current explanation is that the conclusion of there being "a low-level relative surplus" in grain in China in 1984 was wrong and that blind optimism caused a reduction in agricultural output. Let us now examine this point.

According to statistics, from 1982 to 1984 China's gross output in grain increased by 82.10 million tons, averaging an annual increase of 27.37 million tons of which commercial grain averaged an annual increase of 21 million tons, greatly surpassing the scale of increase of 10 to 12.5 million tons of consumption in grain for the country as a whole. The sustained excess supply over demand led to the gradual fall in grain's market prices. In

1984, compared with 1979, the market prices of rice, wheat and corn dropped respectively by 21.3 percent, 19.1 percent and 25.7 percent; the average price of grain reached only the 1965 level (whereas from 1966 to 1984 the retail sales commodity prices rose by 18.9 percent). At the end of 1984, the quantity of grain which the state's grain departments had to store in open-air sheds, because their warehouses had been fully stocked with grain, was some 30 million tons. Under this system of the inverse or irrational ratio of grain's purchasing and marketing prices, the more grain purchases made by the state the heavier became its financial burden and the 1984 budget deficit of 4.45 billion yuan was mostly due to it. The "difficulties in marketing grain" occasioned throughout the main grain producing areas in the whole country, the inability in state finance to bear the burden of increased purchases of grain and the difficulties in purchasing, regulating and storing grain caused by the "crisis in storage capacity" not only jointly manifested that at that time grain supply was larger than grain demand but also showed that society was incapable of bearing and sustaining this overwhelming force from the short-term and abrupt excess of supply over demand. Thus, the conclusion that in 1984 there was "a low-level relative surplus" in grain was a statement based on facts and itself did not carry any color of optimism or pessimism.

Another explanation was that although in 1984 there definitely was a market surplus in grain, yet this surplus had a weak foundation and was insufficient to stand the heavy pressure of the reform in grain's purchasing and marketing structure. Hence, if at the time the conversion scale in grain (that is developing the animal husbandry trade) had been expanded, the subsequent large undulations would not have happened.

In examining this point, first we must not that if at the time China had continued to carry out the policy of making excessive purchases, increasing the price and generally opening up the purchase channels, then by the end of 1986 the accumulated surplus storage and stocking of grain would have amounted to 100 million tons, and the grain purchase funds needed would have amounted to 40 billion yuan of which the finance department's directly appropriated funds to meet the increase in price would have amounted to 14 billion yuan. Obviously the state's finance, under the conditions of a budgetary deficit for 6 years in a row, could hardly bear the burden. At the same time, even though there had been a determination to increase the budgetary deficits so as to maintain the grain purchase price, the limitations in storage or stock-piling capacity could hardly have been surmounted. Thus, the necessary financial and economic conditions to the continued enforcement of the original grain purchase policy were lost. Second, China, after having solved the problem of the people being dressed warmly and eating to full, naturally should convert a portion of the grain into feed grain to produce meat in fulfillment of the new consumption demand. The problem is that under the condition of the food

products purchasing and marketing structure not having been touched at all, expanding the conversion of grain at parity prices implies expansion of the practices of "restricting production and stimulating consumption" applicable to necessary mouth grain to meat consumption. By so doing we would be taking the same disastrous road of certain socialist countries subsidizing the stiff increase in the meat-eating practices. Under the conditions of China's agricultural resources, this would be a fatal mistake she could not afford to commit.

13. In short, it is necessary to start from the actual conditions of the moment, make a yearly adjustment and reduction of the grain output volume and slow down the growth speed of agriculture (plantation trade). In China, the shift in agriculture from super-conventional growth to conventional growth took place in 1984-1985, being a result of the concrete economic conditions at that time. The real problem is why, after the requirement of dressing warmly and eating til full has been met, the mutually coordinating character between demand for food and agricultural production is on the contrary being lowered. The reason why this problem is worthy of earnest discussion is because, so far as the stage of new growth is concerned, the mutually adaptable character between the economic process and changes in the economic structure must be strengthened and the degree of their coordination must be raised. Only by so doing is it possible to contain the sustained display of the structure's productive forces and to maintain the efficiency rate and harmony in the growth of wealth. Hence, we cannot be satisfied with seeking certain simple reasons to explain this food crisis in the cities but should grasp the main line of the character of adaptability and that of coordination in the changes and reform of the structure to analyze the reciprocal relations and the form of reciprocal adaptability between China's agriculture and the national economy and obtain a necessary lesson therefrom.

Part 3: Intensification of Structural Contradictions: Extent of Non-Adaptation to System

14. Any country, when entering into the stage of transformation to an economic structure with a middle-grade income level, cannot but be accompanied by changes in the economic system so as to form a new mechanism to meet the new economic problems. China's special characteristics are: First, the country's enormous size; and second, prolonged closure to the outside. Under such conditions not only did the economic structure and economic system formed suffered from deviations and errors of a high degree of deformity but also the vested interests correspondingly formed became largely customary. After 1984, the conflicts between the inertia of the original industrial structure and the multifold forms of demand in the new stage became daily more outstanding and the vacuum in friction and contact between the inertia of the interests of the original structure and the all-round reform of the structure also became daily more serious. This forced society to meet with unprecedented

difficulties in readjusting and reorganizing the circulatory system and storage volume of the entire economy and led to the appearance of a series of unstable phenomena in economic life.

Demand Formation and Demand Structure: Twistings Caused by Mechanism

15. From 1984 to 1987 the most basic change in the circulation of the national income was the reduction in the growth rate of the monetary income of rural residents, whereas the volume of circulation of the monetary income of the urban residents rapidly expanded. Summing up for the 4 years, 50 percent of the whole end-income of the urban and rural residents went to the residents in the cities and towns who occupied roughly 20 percent of the whole population. This situation had direct effects on the formation of the end demand.

From 1984 to 1987, in the whole country the gross volume of salaries and wages of the staff members and workers and their average remuneration respectively showed an annual progressive increase of 18.9 percent and 14.4 percent, far higher than the corresponding increases of respectively 10.4 percent and 6.1 percent from 1979 to 1983.²⁴ Without doubt, agriculture's supra-conventional growth from 1979 to 1983 provided the possibility for the increase in average salaries and wages in the cities and towns during the same period and for expansion of the area of employment and this was in conformity with the historical experiences since the establishment of the PRC. The difference was that that after 1984 the administrative delegation of power in the urban structure under a weak budgetary control provided a new possibility for the monetary income of the staff members and workers to exceed in growth the productivity rate. But the problem which had existed for a long time of the urban residents' practice of "everybody eating from the same big pot" at the expense of the enterprises and finance was still not solved following the delegating of power and the ceding of interests. Narratives coming from all sides of peasants in the rural areas becoming well off greatly heightened the expectation of the individual urban resident of increasing his income in the near future; at the same time, readjustment of the ownership structure in the cities and towns brought with it a rapid increase in the income of employees of non-state-owned establishments and this further provided a new reference picture for competition in whole society. But once there was inconsistency between income wishes and control, the urban residents' demand, backed by solid purchasing power, would tend to exceed the effective supply provided. From 1984 to 1986, the monetary income available for the urban residents to purchase commodities and to pay for services rendered increased by 102.5 percent²⁵ whereas during the same period the increase in the net output value of industry, building industry, communications and transport and commerce was only 80.5 percent²⁶. In the final analysis,

the principal cause for the unconventional and large-scale increase in income of the salary and wages nature was the laying aside of the ownership right of state-run enterprises and the soft and weak budgetary control.

16. This increase in residents' income under this kind of mechanism, in combination with the original salaries and wages welfare structure in the cities and towns, necessarily causes further twisting in the ultimate demand structure. As a result of the income increase not having been accompanied by any increase in risk and responsibility, of the narrow sphere for consumption and of the progress in the monetarization of the individual income being much faster than the progress in monetary capitalization, this had led to the concentrated consumption demand becoming too brisk. At the same time, in the entire course of consumption, the lack of a mechanism exercising competitive restriction against, say, a certain consumption item (such as consumption on housing restricting consumption on durable articles), further led to the urban residents' consumption easily being adaptable to influences and disposal of current market traits. The scene of a massive assembling of purchasing power concentrated on repeatedly "bombarding a certain consumption goods market," causing the state of "the markets vibrating at the same step"²⁷ which had appeared already 3 years ago being sustained up to now and continuously interrupting the stability of economic life.

Do to the excessively heavy obligations which government has taken in undertaking the stabilizing and elevating of the standard of living of the urban residents (this would be necessary at times of low-income level but would be extremely risky if unlimitedly expanded or extended), once economic instability is occasioned, then it will have to resort anew to the use of administrative measures to maintain stability. Control of commodity prices and granting of commodity price subsidies of a financial nature caused the prices of consumer goods to be further separated from the state of supply and demand. This not only provides the evil source for deepening the twisting of the demand structure but also weakens the measures to counter the twistings in the structure of consumption demand. People cannot help feeling from it that a certain kind of malicious cycle enveloping urban economic life has been formed.

17. End demand forcefully led to the expansion in the gross volume of intermediate demand and to changes in the structure. This provided the basic motive force for the accumulation rate during the years 1984 to 1987 again rising and the investment wave being sustained from beginning to end. Nevertheless, the twisting in the structure of end demand also was accompanied by a new round of maladjustments in the investment structure and in the situation of the existing or stock volume of assets still not being able to make any regulation or adjustment and the old errors and discrepancies in the assets not having yet been rectified, new errors and discrepancies repeatedly increased²⁸

18. In short, in recent years the problems on the formation of demand in China are: In the cities and towns, the soft and weak budgetary restrictions on the enterprises and the old fringe benefit system have caused the formation of double twisting in the end demand, while under the conditions of the difficult regulation of the stock volume of assets this in turn caused twistings in the investment demand. In the course of transformation of the national economy into the new circulation track, existence of the above-mentioned problems not only makes it difficult to remove the unstable factors in the national income in the current period but also produces various kinds of disadvantageous influences on the long-term development of the national economy.

Production Process: System's Influences on Speed and Structural Changes

19. First, the turning of agricultural production to conventional growth did not imply that everything was normal. What was relatively outstanding was the overly large scale in grain production in 1985 and a series of overly large undulations in the supply of agricultural products.

In 1985 grain production was reduced by 28.20 million tons, being the largest reduction in grain production since the formation of the Republic. In the course of the normal regulated reduction in grain this time, the causes for the overly sharp production reduction for the year were: (1) As early as in 1983 grain's market prices had already approached list prices and under normal conditions grain production in the whole country in 1984 should reduce the growth speed. However, on account of the slow procedure in the readjustment of the list price, plus the continuance of opening up the purchases, this caused in 1983 society's grain purchase volume to increase by 28 million tons over the preceding year, occupying 85 percent of the increased output volume of grain for the year and artificially preventing the fall in grain prices in the market. Furthermore, it stimulated the peasants to again increase grain output in 1984, adding to the serious situation of the grain surplus and ultimately bringing about the proverbial situation of "poor grain prices harming the peasants."

(2) In 1985, the state's purchase price of grain was changed from "extra prices for excess purchases" to "inverse 3-7 combination prices," making the entire level of grain purchase prices fall by 10 percent compared with the preceding year; this was a serious blow to the interests of the grain peasants in the grain producing provinces. (3) In 1985 the whole country's grain production resources were transformed into production of economic crops, this including certain factors of a portion of administrative intervention compelling reduction in the grain sowing area; for example in the south-west and north-east regions certain provinces still had to import grain from outside and also had no really large economic crop markets, yet in some of the provinces they still had to reduce the grain sowing areas from 4

percent (Yunnan) to 7 percent (Guangxi) ²⁹. (4) Factors directly affecting grain production such as weather, reduction in agricultural investments and fall in agriculture's ability in countering diasters. Of the above-mentioned causes, the key ones were the improper administrative intervention on prices of agricultural products and the plantation areas. This also was the main reason of the undulations in the supply of economic crops since 1985. Because of this, the unavoidable undulations in the agricultural products markets in China have been greatly enlarged.

Due to the excessive quantity of stock-piling, the overly large production reduction in grain in 1985 did not threaten the balancing of the supply and demand of grain. As for why in 1986 to 1987 grain supply could not at once catch up with the newly expanded grain demand, it was because of the law of cyclical operation of grain production in itself and also because of new problems arising from changes in agriculture's cost-of-production characteristics (including opportunity production-cost characteristics) all of which need to be analyzed in combination with the changes in other directions in the production structure.

20. China's rural non-agricultural pursuits had their start under the conditions of a very large inertia of separation between the urban and rural areas and originally should possess the characteristic of making a rapid start after having been kept in reserve for so long a time. Due to the insufficient fostering and development of the key elements market, particularly the cost of capital and the prices of land being below the market level, their investment and expansion have not suffered from the strict restrictions of the key elements market. Added to this the fact that up to now the administrative force of pressure calling for "striving for output value first" not having yet been fully dispelled, all these factors have caused the aggravation of the excessive competition among the rural non-agricultural industries and trades, led to the fall each year in the investment benefits and operation benefits of the town and township enterprises, and also, via the following channels, influenced the character of the cost of production in agriculture: (1) Increase in the income of workers of town and township enterprises led to a rapid increase in the cost of production of units of agricultural labor force; (2) Occupation by the enterprises of a portion of the farmland stimulated a rise in the shadow prices of land for agricultural use; and (3) The trend in the conventional rise of the opportunity production cost of farm labor carried with it certain exaggerated elements that were untrue. Since these factors were all manifested after 1984, it may be said that the increase in the prices of agricultural products in recent years was not merely due to the pulling force of demand exceeding the ordinary but was also due to the promotional force of the cost of production exceeding the ordinary.

21. The high-speed growth of the large industries has from beginning to end never eliminated the stamp of the original structure excessively stimulating the growth of

the processing industries. But the changes in the output structure of industries have from beginning to end never been able to follow up the changes in market demand and all along have suffered from the co-existing structural double pressure of a portion of the products being behind demand in supply and another portion of products exceeding demand in supply. In particular, in 1986, due to the fall in foreign exchange reserves, the excessively high volume of imports was reduced and the problem of the balancing of supply and demand in the domestic industrial products markets again became acute. In that year, the social surplus purchasing power exceeded 78.5 billion yuan, a growth of 42.7 percent over the preceding year and higher by 37.7 percent over that of the preceding year.³⁰ This situation not only drew China into another round of substituting industrial products with imports but also led directly to a larger and more opportunity-seeking portion of purchasing power to tap at all times other markets which still possessed flexibility in supply, such as the food products market.

During this period, the characteristics of the cost of production of large industries made rather large changes which had decisive effects on the inability in the past 2 years of agriculture to promptly rise again in production. Take for example the conditions of industrial enterprises under the system of ownership by the whole people and doing independent business accounting: In the 3 years the comparable cost of production averaged an annual rise of 6 percent³¹. Added to it the factors of the system of monopoly, the price index of industrial products showed an obvious rising trend, directly pushing the rise in the cost of production in agriculture. Taking the 1978 prices as the base 100, in 1986 the retail sales mixed average price index of farm medicine was 317.7, that of chemical fertilizer, 164.9 and that of grain, only 140.3. This illustrates the clear deterioration in the trading conditions between agricultural products and industrial input articles for use in agriculture. The errors in policy making on the supply scale of chemical fertilizers aggravated the degree of scarcity in the market, to the extent that when city people were discussing the peasants' loss of enthusiasm in tilling soil and planting, the peasants themselves were aggrieved by the inability to buy chemical fertilizer.

Rise in Commercial Transaction Expenses and Direction of Flow of Foreign Trade

22. From 1985 to 1987 the general pattern of the flow of commodities internally in the country also developed intensive changes. The monopoly control of the circulation of commodities, particularly of food, was broken and a competitive mechanism began to be formed. But what was not in symmetry was commercial commerce meeting with difficult steps in the reform. Under the conditions of its position or status having greatly fallen in the market, it was still taken as a "measure to stabilize the market," and was accorded with excessive administrative protection, leading to inflation in the circulation expenses. Take Beijing Municipality for example: On the

one hand, in 1986 the absolute quantities of hogs, domestic fowl and eggs handled by the state-run commerce fell respectively by 32.4 percent, 11.3 percent and 33.3 percent in comparison with 1984; while on the other hand, during the period under comparison, the year-end gross value of fixed assets of state-run commerce and the gross volume of salaries and wages of the staff members and workers respectively rose by 17.7 percent and 17.5 percent³². This could not but greatly increase the circulation expenses of the entire food products commercial trade, thereby pushing the food prices upward. At the same time, it caused a great portion of the expenses for food products paid by the residents to be retained irrationally in the circulation area, thus weakening the stimulant role of the increase in food prices on production.

Another noticeable characteristic in the acts of state-run commerce was the great increase in non-standardization in the monetarized environment of the initial grade. In particular, in the operations on agricultural and sideline products, when prices were downward people would decline taking in and at the same time would sell out; while when prices went up, they would, without any budgetary restraint raise the prices and make crash purchases. The result was that when there was no profit in sight, they would retreat to nowhere but would rush forward when profit was in sight. In deranging the normal market order, the publicly-run units would go so far as to resort to administrative measures to interfere with the legitimate business activities of other commercial organizations, protect their own position of monopoly and this in recent years has become a relatively startling socioeconomic phenomenon. These non-standardized activities of the large commercial organizations artificially enlarged the markets' undulations and aggravated the imbalance in supply and demand.

23. The rise in the degree of dependence of China's foreign trade was made under the conditions of there being no large or important changes in the original foreign trade structure. Hence the internal mechanism in the original structure of "rewarding import and restricting export" all along has not been basically removed. From 1984 to 1987 the average annual growth rate in China's exports was 15.5 percent, being slower than the 17.9 percent recorded for the years 1979 to 1983; in particular, it was lower by 3.7 percent than the growth rate in import trade for the same period³³. The characteristic of China's export trade structure pointing to products of the initial grade and products with a low processing intensity determined that after 1984 when the supra-conventional growth in China's agriculture was concluded and energy prices dropped in the international markets the growth speed of China's export trade would be on the downturn.

Hence, raising the degree of dependence on foreign trade was not equivalent to raising the degree of being oriented to the outside. From an analysis of the circulation process, it was found that during the period the imports

and exports had the following characteristics: (1) The products of import were ultimately oriented toward the domestic markets and not to the international markets³⁴; (2) "Measuring Imports and Squeezing Exports," and not "Basing imports through measuring exports;" (3) Co-existence of the inertias of the up-grading of imports and the down-grading of exports and tossing abroad a portion of the processing work of a high appendix which in reality reflected that changes in the internal industrial structure had been far behind the changes in domestic market demand; (4) Export expansion took as the real basis the production of initial-grade products and the force of pressure resulting from the competition among the initial grade products for exporting and domestic sales pushed the increase in the prices of the initial-grade products.

Prior to 1984 China's import and export circulation process possessing the foregoing characteristics was supported by the super-conventional growth of agriculture but following the drop in the growth rate of agriculture a series of new problems were rapidly met with, these including adverse balance in foreign trade, increase in foreign loans, double-tightened domestic and external markets for the initial-grade products, rise in the hunger and thirst for imports, and so on. China was thus confronted with a new test in the readjustment of its foreign trade policy.

Aggravation of the Structural Conflicts in the Course of Turning to the New Stage

24. Summing up the changes from 1984 to 1987 in China's demand, production and trade process, it may be found that the entire economy was progressing along the general trend of growth in wealth featuring the "demand for up-grading the industrial structure because of the growth in income and the changes in demand." Nevertheless, the enormous inertia of the original structure led to China's economic mechanism's lack of adaptability as a whole to the newly formed stage of growth in wealth. This has become the cause of impeding the continued growth of China's economy.

It is not accidental that this type of structural inadaptability is centrally manifested in the contradictions in the supply and demand of large-bulk agricultural products. The gross volume and structure of demand formed from the lack of effective control, under the conditions of insufficiency in effective supply inside the country, have formed a "demand gap of a super and high-grade nature. From two directions they increase market's demand for agricultural goods: one direction being the increase of exports in exchange for foreign exchange to support a high degree of imports and the other direction being to divert a portion of the quantity of flow of purchasing power backed by sufficient money-holding to make purchases to bring pressure to bear on food demand. And precisely at this moment, the supply capacity of agriculture, being affected by the undulations from expansion

and suffering from insufficiency in supply of the industrial-input articles and from the effects of the changes in the character of production cost, was unable to promptly become adapted to the expanded demand.

Here are two key factors which have played a hindrance role: (1) The form of the fringe benefits in the urban residents' living which depends on on public financial expenditures continuously twisting the formation of demand; and (2) Under the weak state of control due to the non-exercising of the ownership right causing the residents' income to exceed effective supply and hindering the readjustment of the existing volume of assets. Their joint role is manifested in the relative imperfection of the pricing mechanism thereby hindering the reciprocal adaptation among the changes in the various economic sectors.

Therefore, we believe that the fact that in recent years the contradiction in the situation of supply and demand of agricultural products has again become acute cannot be fully explained by an analysis of whether or not there has been a balance in the gross volume and can neither be fully explained by the yearly undulation in agricultural production. The reason why we do not agree with merely looking at this food crisis in the cities and towns as simply an "agricultural production crisis" is not because we have not noticed the weak technological, economic and social foundation of China's agriculture and the difficult nature of the various new problems that have arisen from the reform in recent years³⁵ but because we felt that if the urban food crisis were merely concluded as a production problem, then not only the difficulties could not be solved but also we might neglect this crucial problem of the reciprocal unadaptability of the entire economic structure and would not then be able to cure the cause of the disease and unable to open up the display and growth of the productive forces of the structure.

In short, when China turned into the stage of new growth, the nonadaptability between the original structure and the growth of wealth which she met with has aggravated the structural contradictions. The urban food crisis was only a signal inviting people's attention to this fact.

Part 4: Selection of the Development Policy for the Period of Turning to the New Stage of Growth

25. Based on the foregoing analysis, in our opinion the center of the development policy in the recent and intermediate periods is to improve and add to the overall adaptability of the country to the changes in the structure. Under the conditions of the appearance of a vacuum in the interchange of old and new structures, aside from firmly fixing the meaning of the reform as renovation of the system and quickly fostering the development of the various new systems, improvement of the quality of the government's work during the turning period and strengthening its power of regulation and control are also

rather important supporting points. The experiences learned from the lessons in 1984 to 1987 have revealed to us that we should no longer delay or put off any efforts to find definite policy conclusions from the following several development problems.

Defects in the Supply Demands that China Should Put Control of Demand in the First Place of the Development Policy

26. Due to the occurrence for many years in succession of the problem of "gross demand being larger than gross supply," people seem to have admitted that so far as China is concerned a "loose and lax economic environment: is only a vain hope lacking in reality. In particular, after the occurrence of the urban food crisis, the public's fervent talk has been the incompatibility of China's agricultural resources to the requirements of the population.

Generally speaking, any economic problem has the shortage of resources as the precondition. Even the economically more developed countries cannot be said to have been freed from the restrictions of resources. The problem lies in that if we do not take a step further and definitely understand what independent and special features are found in the insufficiency of China's economic resources, then it is feared that it will be difficult to find from the general discussions relative to "restrictions of resources" a development policy applicable to China's realities. Here several points must be made clear: After 1984, China has solved the problem of "being dressed warmly and eating till full" for the majority of the population and the urban food crisis in recent years not only did not overthrow this conclusion but also, because of its special nature, further attested to it; (2) Today China's scarcity in resources is more or less centrally manifested in the insufficient supply to certain newly arising demands; (3) The manifestation of insufficiency in resources and supply is not confined to comparison with consumption wishes of a supra nature but, due to these wishes continuously commanding and controlling more and more purchasing power, insufficiency in market supply is all the more manifested; and (4) All along a portion of intermediate products and end products which had consumed the production capacity of resources have been found in a state of surplus or stockpiling in varying degrees of which not only was there stockpiling caused by the products getting out of date but also there were instances of the productive capacity of the best-selling products lying idle.

Thus, in recent years the insufficiency in effective supply in China does not have too much direct connection with the usual natural and historical causes such as the small per capita volume of resources but is related to such new problems as with China just emerging from the economic bracket of low income how we should handle the still extremely limited "surplus resources" in comparison with the people being dressed and eating to their fill and how to determine the satisfaction in accordance with

order and satisfaction in degree of the various kinds of new demands. How to remove the shortage in resources in the system and how to further elevate the efficiency in the disposal of the resources are the new problems currently confronting us.

27. A new problem cannot be solved by old methods. In the low-income stage, each and every demand for consumption and accumulation nearly always belongs to the realm of absolute necessity. "Taking grain as the chief link," and "taking steel as the chief link," and so on, in the past all had attached to them this kind of forced rationality. From this was formed the inertia in thinking of relying on "increasing production and ensuring supply as measures to handle shortages."

However, the growth in wealth shakes the natural rationality of each and every kind of social demand. Confronting China's economic growth from 1984 to 1987, could it be that people have no reason to ask the questions: Is or is it not true that the over-rapid inflation in income and demand should correspondingly provide society with sources of effective supply? Is it true that the frightening demand in the market can be really of help in rationally raising the standard of living of the Chinese people and maintaining their respectability and at the same time attaining even more developing opportunities? Does the roaring-type, abrupt and centralized direction of purchases exceed the possible adaptability of the production system, thereby lead to new wastages and extravagance in the allocation of resources and ultimately aggravate the shortages? Many of the developing countries have fallen into pits of difficulties because immediately after they have grown in wealth, they abandon the control of the formation of demand and of the demand structure. Based on this consideration, we have put forth the following viewpoint: "In the stage of new growth, if we cannot effectively influence and control the formation of the demand for non-essential goods, then the implementation of this correct slogan of "being oriented to the market in investment and production" will lead to serious problems in the allocation of resources³⁶. Today this viewpoint must still be insisted upon. At the current stage in China demand control must still be placed at the head of the development policy.

28. This type of demand control still awaiting to be strengthened is not that type of control of the gross volume of demand prevalent for a time in certain developed countries of the market economy. Control of the gross volume takes as the precondition the structural problems not being outstanding, or even though structural problems do exist there being still in operation the market's automatic regulation mechanism. It happens that we lack such a precondition. Therefore, we urgently need to improve the regulation and control of the demand structure. The experiences from 1984 to 1987 have pointed out to us that we can proceed to collect experiences on control of the demand structure from the following several sides:

—Determinedly restricting the entry or incorporation into the labor income of the urban and rural residents of

the following: land rent, grade-differential income and differential between real interest and nominal interest. The basic way to realize these objectives is to speed up the fostering and development of the essential elements market and to start the collection of a sternly administered progressive tax on the individual's income.

—Making the relatively higher income be unanimous or comparable with higher creations and employment risks, and increasing the restriction on the higher-income earners tending to compete with each other in spending. For this purpose, it will be necessary to strictly limit the expansion of the scope of the original social fringe benefits and the increase in their level. We should also resolutely reform the social welfare system and gradually convert a portion of the fringe benefits of each and every person in the urban system to become direct aid to the portion of the population earning a low income.

—Establishing an intermediate-product market for the key products, filtering the stimulant role of the signals of the demand for the end products on the production system, and preventing, from the demand side, the further slide in the quality of the investment.

In short, in comparison with the reverse regulation of the gross demand being either over-brisk or insufficient, the formation of a demand structure in symmetry with the growth in effective supply may possibly be a more important target.

29. The urgent nature of the problem does not permit us to wait for the birth of a certain perfect regulatory measure before discussing how to attend to the control of the demand structure. We can only bring up the problem in this way—with the tactics or measures we now possess, or can possibly possess, as the actual start can we prevent the occurrence of the worst possible eventuality? For example, we may study the following: (1) With the scope of commodities of a high-earning flexibility the establishment of the following new principle: "In case of any kind of over-brisk demand (that is, in excess of supply capacity), the prices of the corresponding articles of supply shall be loosened up," among which a consumption tax will be additionally levied on certain high-grade consumer goods. The main points are to use the mechanisms of partial prices and taxation to restrict the over-brisk demand for commodities with a high-earning flexibility; (2) In the event of the opening up of the prices of certain commodities the financial secret subsidies on such products will be abolished; (3) Whether or not the secret subsidies should be converted into open subsidies and regarding the scope and level of the open subsidies to be enforced will be determined on the basis of the product variety and regions and strictly in accordance with the capacity to bear on the part of the residents and state finance; (4) Enforcing simultaneously opening up the prices, increasing rent and increasing taxes, making it clear that "price-rise benefits belong to society," and reducing the losses in land rent,

The experiences of 1984 to 1987 have reminded us that under the conditions of weak market control, all-round monetarization would abruptly increase the uncertainty in the multifold changes of the demand structure. Hence, during the transitional period, a portion of semi-monetary instruments (such as residence coupons, durable consumer-goods coupons, food coupons and various kinds of financial bonds and certificates which in themselves possess value but can circulate only under specified restrictions) to take the place of ready cash. This possibly can help in reducing the degrees of the difficulties in managing and controlling the demand structure.

Positive measures with no relation to prices should never be abandoned. This includes the criticisms and comments on the irrational demand structure and reasonable and constructive calls for rational demand, and consumption exemplary demonstrations (particularly government consumption demonstrations) specially planned according to China's conditions.

Readjusting the Reforming Strength of the Urban and Rural Sectors Under the "Duality Erroneous Position"

30. The economic changes in recent years have brought people's attention to an important reality which had been universally overlooked: China has to a great extent lost the exemplary characteristic of the "duality economic structure." Hence, how large is the guidance significance of the development theory of a duality economy to China is a problem that needs renewed discussions.

China's loss of the characteristic of an exemplary duality economy is manifested in that the duality in technology and the duality in system have fallen into a seriously erroneous position. In technology, China's urban large industries present a modernized direction and possess the whole initiative in promoting modernization of the standard of living, production and form of intercourse whereas agriculture, rural villages and the traditional departments of cities and towns basically follow the disposition of the traditional pattern and their modernization movements are basically subjected to the expanding and radiating effects of the cities and towns. However, in the system, the structure of the large industries in the cities and towns has suffered seriously from the bondages of the traditional socialist economic pattern. This is manifested not only in that prior to the reform the control by administrative mandatory plan had been more stern but also in the existence of the strong and complex vested-interest groups formed through the reliance on the original pattern of fringe benefits and the form of understanding thereof. For this reason the reform was hard to start and after its having started various phenomena of deformed changes have ceaselessly made their appearance. This forms a clear contrast

with the traditional departments being subjected to relatively lax bondages from the old structure and the reform finding it easier to breakthrough and achieve concrete development.

Briefly speaking, in structure the technically advanced urban large industries are backward while the technically backward traditional departments are advanced. This is the pattern today of China's special characteristic of "duality erroneous position." The macroeconomic whole of this type of pattern cannot but face two difficult choices: If the cities and towns are taken as the poles in growth, then simultaneously with their incessantly absorbing resources in traditional form, it will be possible that the structural disease of "everybody eating from the big pot at the expense of the State" may be infected to the bodies of the new round of people in employment. Conversely, if simply the condition of the structure is taken as the direction, then China not only can further occasion the "reverse flow" of resources to the traditional departments or the industrial traditional departments and still in the end cannot leave aside the key problem of the degree of urbanization.

31. New manifestations of the above-mentioned contradictions were seen in the years 1984 to 1987. On the one hand, following the universal practice of assigning responsibilities on the household basks, the state of the unlimited supply of labor force has changed from being concealed to being open; on the other hand, the salaries and wages of workers of the urban system began to increase rapidly and the tendency of the absorption or transformation of land rent and interest into salaries and wages spread to the rural villages. China was confronted with the intricate problem of her relatively superior manpower resources losing their character of being cheap in price even prior to full employment having been achieved. This tendency will lead to China's being able to utilize the innate motive power mechanism of the duality economic structure. It not only will give the currency inflation in the transformative period of the structure double promotional force by means of cost of production and demand and hinder the balancing of the yearly economic stature but also will hamper China from putting its superior resources to the best play and reduce the selective chances of development in the intermediate period.

32. So far as China is concerned, the following several methods may be of use in solving the problem of "duality erroneous position:"

—Releasing through reform the urban large industrial system and quickly transferring to the traditional departments the technological capacity which it cannot absorb by itself for a time so as to speed up the technical transformation and cultural progress of the traditional departments;

—Resolutely and firmly in the traditional departments carrying out the deep-layer reform which takes as its center the determination of the property right demarcation system, selectively introducing organizational genes and systematic genes into the developing and fostering procedure of the market economy, opening up the renovative tests which are in combination with China's realities, and fostering the reliable antigens the traditional departments to resist the structural diseases of the urban large industrial systems;

—Speeding up the speed of congregation of the resources of the traditional departments in the small cities and towns and small townships which have suffered the least effects of the urban structural diseases and forming a number of relatively advanced new-style cities and towns and new-style modern departments both in technology and structure;

—Maintaining and appropriately strengthening the movements to cities and towns of low-income level personnel of the traditional departments and in the cities and towns forming a social force to check and restrict the urban structural diseases; and

—In the course of the re-distribution of macroeconomic national income, specially in the reform touching on the welfare system of the invested interests of the old structure, opposing the unprincipled "siding to the cities."

In short, the realities of the "duality erroneous position" will force us in actual practices to find a development road which is in harmony with the characteristic of reciprocal movements between China's urban and rural areas.

A Large Country's Small Economic Management: Market's Half-Diameter Expansion and Savings in Transaction Expenses

33. A portion of the currency inflations and market undulations from 1984 to 1987 in China represented the price paid for changes in the economic organizational structure. The most noticeable changes were the rapid development of the non-state-run small-scale economy and the growth in wealth through a high-degree of leap forward. Prosperity in the markets also brought along new difficulties in macroeconomic regulation and control.

The strong points of a small economy are obvious: Entry into a small-scale economy is extremely easy because of its relatively small-scale demand on material capital and manpower capital; it is not only adapt in handling an ever-changing technological and economic environment but also suited to counter the socio-political currents of many changes; it makes possible the use of extremely low internal organization expenses to counter the effects of the insufficient scale of the benefits; it can readily actuate direct liaison between the interests and the principal people concerned as a result of which, in

comparison with the large-scale economy, it has even stronger stimulating effects in that it can enable the individual to reap instant benefits; it reduces to the utmost extent the scourges of economic bureaucracy and can make fuller utilization of the crevices and empty spaces of resources and on the side of the structure; and so on. All these are causes of minor economy briskly flourishing everywhere.

The weak points of a minor economy are also self-evident: insufficient strength to meet market risks; whenever its activities of a commodity nature are stalled, it is liable to retreat to the stage of semi-self-sufficiency (particularly in the case of agriculture); too strong a degree of similarity with each other and almost always the reactions to any market opportunity are alike and they will go up and down in unison; the extremely high intelligence expenses lead to a high cost of production; the extremely high transaction expenses hinder them from banding together to resist the larger-scale economies of a monopolistic nature; tendency to use short-term and speculative tactics to cope with an unstable economic and social environment; possibility of certain people becoming immensely rich in the distribution of income and the staunch stimulation on the various levels of society of such a possibility; difficulties insubjecting small economies to effective social supervision; and so on. These characteristics are cause of the expansion of market undulations and vibrations and add to the difficulties in social control.

The outstanding strong points and outstanding weak points of a minor economy lead to wavering of the development policy. Examples of this may be found ranging from letting it loose to develop at times when the problem of unemployment becomes critical to times of violent market fluctuations when blame is laid on the minor economies and an unconditional turn is made to a dimensional economy.

34. Only by making an overall assessment of the advantages and disadvantages of small economies in China's current development stage will it be helpful to overcome the wavering of policy as mentioned above. Like many other developing countries, in progressing from the low-income level to the medium-income level in China, we have to depend on the minor economies to create a sizable portion of the wealth; like many other socialist countries the successes of China's reform will have for a considerable length of time to depend on the prosperous growth of the small economies as testimony and confirmation. Hence, it is necessary to definitely establish a guideline for developing the small economies, establish a guideline for the scope of the operation of small economies in the course of development, and establish a principal (not sole) guideline to employ methods of external dimensional economies (particularly improving the association between small economies and large economies) so as to raise the quality of the small economies.

35. Experiences have shown that the cause for the difficult standardization of the acts of the small economies lies in the poor quality of the environment of their activities while the difficulty to improve the quality of the environment may be traced to the acts of a large number of small economies not being standardized. For example, the rather general disrespect shown to commercial rules and business reputation leads to the result of "bad market elements driving out good market elements." If it is not possible to breakthrough this closed cycling, then the increase in the extra transaction expenses in the market transactions will be too high for the economy to bear and this will force the market relations to again become worse.

The key to break this cycle lies in removing the fantasy that the problem can be solved by the possible generation of an automatic mechanism. Rather, it is necessary to put in organizational strength. First, emphasis should be laid on improving the market environment, certain initial rules must be fixed by means of both demonstrations and punishment, and society must be convinced that the market regulations do have the potentials of economizing in the transaction fees and bringing along interests to all. At the same time the small economies should be induced to generate their own innate demand for becoming systematized and, through the method of combining learning from the outside and actual practices we should gradually standardize the market conduct of the small economies.

Be it in agriculture, commerce or industry, regarding the method of principally making use of external dimensional economy to display the advantages of small economies and to lower their disadvantages, rich experiences have already been accumulated internationally while inside the country certain good measures in this connection have also been devised. This is by no means in conflict with certain stages of certain industries being suited to the method of raising the internal dimensional economy. The problem now is to more definitely advocate it as a policy and have it correctly grasped in the creation of new economic organs in the course of the countering market undulations.

Readjusting the Trade Policy: Opportunities, Difficulties and Selection

36. World experiences have demonstrated that the great majority of countries and regions of retarded development had all passed through the stage of protecting the development of their own industries. However, the economic accomplishments of the internally-oriented type of countries which have for a longtime carried out the import-substitute strategy had been universally poor. Hence, the key in foreign trade strategy lies in promptly accomplishing the promotion of import-substitute becoming export-oriented and thereby proceeding to affect the conversion to export-substituting.

37. The urgent character of China's readjusting its foreign trade policy and strategy comes from the force of pressure from the intensification of the conflicts in the internal national economic structure and also from the new opportunities appearing in the course of the changes in the world markets. If it is possible to grasp the external opportunities to ease the rising contradictions in the domestic industrial structure in recent years, this will have an extremely concrete significance on China's economic development in the recent and intermediate stages.

38. In order to earnestly accomplish the new strategic readjustment, we must clear analyze the the realistic economic factors hindering the country's enforcement of the trade policy of an externally-oriented type.

China has a domestic market which is enormously large in scale. The advantages and disadvantages brought about by the "import-substitute" trade strategy are vastly different from those in small countries. This is an objective reality. Hence, the interest inertia brought to China by "import-substitute" is vastly larger than that in small countries. The friction between readjustment of trade strategy and vested interest is also far more serious than that in small countries, and the realistic possibility does not exist of speedily, and on a full-scale basis, eliminating the original strategic inertia and friction in the stage of readjustment.

One more serious problem is that in recent years China has been dragged into a new round of "import-substitutes." From 1984 to 1985, the domestic high-graded demand was stimulated by the obtaining of a large amount of foreign exchange for use in the import trade. This formed a large gap which domestic supply could not fill. How to treat this gap became a realistic difficult problem on the side of the development strategy; to continue to rely on supply from the outside to fill the gap was prevented by the ability to pay; not to increase effective supply would day by day aggravate the force of pressure of a increase in prices; and in the event of a full-scale opening to the outside, then the exports of China's products of relatively strong points could be in exchange for increases in external supply but this would cause the abandonment of the storage volume of assets which had just be built up or failure to use them economically. It was these complicated and complex contradictions that dragged China into the situation of adopting the two-day measure in filling the high-grade gap in domestic demand of, on the one hand, not immediately abandoning the "import-substitutes" and, on the other, urgently encouraging exports to increase supplies from abroad. In 1987, China's economy, under the fall in external supply, realized an increase in the supply of goods in the domestic markets and a relatively high degree of growth in the economy. This demonstrated that the new round of "import-substitutions" could still bring to present-day China considerable actual benefits. Despite the fact that all "import substitutions" necessarily require the payment of a price of losses in the

utilization rate of resources, the new round of "import substitutions" will further expand the inertia of the traditional trade strategy in China. But measuring the pros and cons at the moment China cannot, and should not, suddenly change the dually-oriented strategy of the coexistence of import substitution and export encouragement. In the recent and intermediate periods, the possible scope of China's readjustment of the trade policy will be limited to encouraging exports under the conditions of without wholly abandoning "import substitutions." China still does not possess the conditions of all at once turning to an all-round externally-oriented type of a trade strategy.

39. In view of the structural conflicts in economic development having become daily more outstanding, we recommend the adoption of a structural development policy. Its center should be correcting the formation of demand and the demand structure, increasing effective supply, and gradually strengthening the adaptability to the stage of new growth on the part of variations of the system. At the recent stage the important points of enforcement should be as follows:

- (1) Pushing the reform of the structure of food prices in large and medium-size cities and towns; the key lies in recognizing the upward trend of prices of agricultural products; through the establishment of a mechanism whereby the three parties of the producer, consumer and state finance jointly and rationally bear the consequences of a rise in prices of agricultural products, displaying the functions of prices in effecting mutual adaptation and regulation between the two sides of supply and demand and thereby preventing the possibility of a rise of a vicious nature in agricultural prices in the near future;
- (2) Expanding the supply volume of such items which can segregate and disperse the quantity of flow in the urban residents spending their incomes as particularly on housing, individual financial assets, commercial consumption and so forth;
- (3) Perfecting the sampling survey system of the various sources of actual income of families of urban residents and correctly demarcating the portion of the people with truly low income so as to lay an information basis for setting up a subsidy protective system;
- (4) Filling up the tax collecting ranks and perfecting the tax laws and tax regulations governing individual income;
- (5) Increasing the quantity and improving the quality of supply of industrial articles for use in agriculture, expanding the market-oriented supply of farm products, and expanding the peasants' monetary income derived from commercial agriculture and their chances of employment;

(6) Starting to form organizations and mechanisms to prevent overly large market fluctuations of farm products and reducing the government's actions tending to aggravate the fluctuations when there is an over-serious estimation of the market condition;

(7) Rigidly fixing taxes in rural villages on non-agricultural use of land, promoting the establishment of a land market and rural financial market, correcting the certain unhealthy elements in the course of development of town and township enterprises, pushing the better coordination and combination between development of town and township enterprises and urbanization, and maintaining the trend of their healthy development;

(8) Around the cities and coastal areas, establishing short-term labor forces fostering and training organs and organs offering circulating services, expanding the diameter of the market for circulation of labor force, and suppressing the vicious trend of labor wages surpassing the labor productivity rate;

(9) In the background of an all-round readjustment of the trade policy, setting up a number of industrial processing units to process the exports of town and township enterprises, and at the same time partially bettering the investment environment; and

(10) Firmly suppressing group consumption, maintaining a stable scale in public expenditure and increasing financial support to interest regulation and implementation of the structural countermeasures in the change of the track of the mechanism.

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[Editor's Note] This report was written by Zhou Qiren [0719 0366 0088], Luo Xiaopeng [5012 1420 2590], Ding [2629 7751], and Bai Nansheng [4101 0589 3932]. Those taking part in the discussions on the article included: Chen Xiwen [7115 6932 2429], Lin Yifu [2651 3015 1133], Sun Xiaoguang [1327 2556 0342], Gao Xiameng [7559 1420 5536], Huang Yiping [7806 4135 1627], Hu Zhuangjun [5170 8369 0689], Qiu Jicheng [6726 4949 2052], Chen Jianbo [7115 6856 3134], Li Guodu [2621 0948 6757], Gao Yabiao [7559 2814 1753], Ma Jianying [7456 1696 5391], Deng Yingtao [6772 5391 3221], He Daofeng [0149 6670 1496], Yuan Chongfa [5913 1304c 3127], Dai Xiaojing [2071 1420 0079], Jiang Zhongyi [5592 0022 0001] and Wang Cheng-de [3769 6134 1795].

Footnotes

1. Research Group on China's Rural Development Problems: "The New Stage of Growth of the National Economy and Rural Development," JINGJI YANJIU, Issue No. 7, 1985

2. "Statistical Yearbook of China 1987," Statistical Publishing House of China, 1987 Edition, pp 25, 316

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5. This normal growth speed in agriculture is manifested not only in the average annual growth rate but also manifested as distribution of the yearly actual growth speed. According to the statistics of annual growth rates in agriculture in 87 countries of the world, the distribution of their speed approaches a standard distribution shape and the common figure is an annual growth of 3.1 percent; furthermore, according to the figures of agricultural growth rates by provinces in China from the First 5-year Plan period to the Fifth 5-Year Plan period, their speed distribution also was similar to the standard distribution while the common figure is an annual growth of 4.5 percent. This illustrates that in the majority of countries in the world and in the majority of provinces in China in the majority of years, the growth rate in agriculture was between 3.1 to 4.5 percent. This in effect is the normal growth speed in agriculture manifested in the statistics ("Statistical Yearbook of China 1987," Statistical Publishing House of China, 1987 Edition p. 157.

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22. "Statistical Yearbook of China 1987," p 692
23. "Statistical Yearbook of China 1987," P. 296
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Journal on Ownership by Enterprises

HK0308140188 Beijing JINGJI YANJIU in Chinese
No 6, 20 Jun 88 pp 17-31

[Article by Yu Guangyuan [0060 0342 6678]: "Thoughts on the Prospects for the Development of Ownership by Enterprises"—this is the second and final part of the article "The Fate of State Ownership Which is Undergoing Reform and Thoughts on the Prospects for the Development of Ownership by Enterprises." The first part of the article, entitled "The Fate of State Ownership Which is Being Reformed," appeared in JINGJI YANJIU No 3, 1988.]

[Text] 1. In the reform of the socialist state ownership system will there appear new socialist ownership forms? My answer is in the affirmative.

I divide socialist ownership forms into basic forms and non-basic forms. What are referred to as basic forms are those which are not constituted by the combination of other socialist ownership forms and which are not subordinate to other socialist ownership forms. Thus a further question is: In the reform of socialist state ownership will there appear new basic forms of socialist ownership? My answer is also in the affirmative.

2. Here I want to reconsider the question of socialist ownership by enterprises. I believe that in the reforms, this form of socialist ownership is beginning to sprout and grow in socialist state-owned enterprises and nearby socialist state-owned enterprises, and has a vibrant trend.

3. First we will examine the situation of the sprouting, growth and development of socialist ownership by enterprises in socialist state-owned enterprises, as well as the possibility of and conditions for this situation to occur.

4. Prior to the reforms, all the assets in socialist state-owned enterprises belonged to the state and there was no such thing as enterprise assets. It was only during the reforms that there began to appear situations of assets belonging to enterprises.

One of the aims of reform is increasing the vigor of enterprises. In order to achieve this, enterprises need to be given independent economic interests. During the reforms, there has also appeared the problem of enterprises engaging in short-term activities. Attention must be paid to this. Our reform measures should play a role in stimulating enterprises to engage in accumulation. There is a major contradiction between the need to increase the vigor of enterprises and encouraging enterprises' accumulation, and a situation where all enterprise assets belong to the state. Thus, in the reforms, the government and enterprises have really adopted some ideas and practices which may lead to the emergence of ownership by enterprises.

5. There are two main avenues which may lead to ownership by enterprises in socialist state-owned enterprises: The first is that of the profits retained by the enterprise, a part is taken out for use as additional investment. The second is that the enterprises adopt all sorts of measures to draw in funds from all sides to be used as additional investment. However, the assets which are formed through these two avenues must become enterprise assets. There is also a precondition. That is, the state should not look on these assets as its own and must not use its name as owner to demand equivalent charges from the enterprises which use these assets. I believe that these conditions are being formed.

6. It could be considered that in the process of reform, the following type of financial relationship be established between enterprises and the state: When an enterprise uses state assets, the state will levy tax on the enterprise and the state will not require the enterprise to pay further charges for using the assets. 1) The state will first adopt measures to appraise and determine the entire assets which an enterprise uses (both land and other natural resources as well as other assets) 2) On the basis of the assets used, there will be clearly set down the tax types and fixed tax rates to which they will be subject. Apart from these, there will be no further "discretionary taxation" on the basis of assets used or "package-type" taxation (such as the imposition of regulatory tax). Those assets outside those appraised and determined will not be subject to this tax. In such a way, the different natures of state assets and enterprise assets will be clearly seen. If there are assets in enterprises for which tax does not need to be paid to the state, ownership by enterprises can become a fact.

At present, our country has still not established an overall system which sets down the various tax types and fixed tax rates, and which ensures that tax is levied strictly in accordance with the state assets which an enterprise uses. Land taxes and asset taxes are still at a

stage where they are being explored theoretically and where research is being conducted into the feasibility of their implementation. The method of "discretionary taxation" is still being employed. In such a situation, people are unable to see which assets the state levies tax on and which assets it does not tax. Even if we knew which assets in an enterprise were established with the accumulated profits it was allowed to retain or with funds drawn in from various sides, this portion of the assets and the state assets would not be clearly differentiated in actual economic life. We still cannot say that enterprise assets or enterprise ownership exists yet.

7. We can also consider establishing the following asset relationship between enterprises and the state in the process of reform: The state can lease out all the state assets which are in an enterprise, with the condition of lease being that during the period in which the lease is in effect, the remaining profits of the enterprise after it has paid the leasing fees, should be considered the income of the lessee. The state assets of an enterprise will be determined by appraisal. How these assets are, on the economic level, to realize themselves, shall be explicitly set down in the leasing contract. After the expiry of the leasing contract, if there are increased assets which have resulted from additional investment, the lessee will not have to pay the state more leasing charges to use these newly-added assets. This phenomenon can be explained by the fact that this part of the assets are not state assets but the assets of the leasing enterprise itself. However, if it is stipulated in the leasing contract that when the contract period expires the enterprise assets formed through newly-added investment will, together with the original state assets of the enterprise, revert to the state, these will become state assets and the significance of ownership by the enterprise will be lost. In such a situation, I believe that we should affirm that during the period of lease, in the leasing enterprise there should in general be the possibility of enterprises having their own assets. In situations where the leasing contract is long, the significance of enterprises' own assets is more definite. The longer the period of a leasing contract, the greater the significance of enterprise assets. In a short-period leasing contract this is not so important that the lessee cannot invest a large amount of funds to increase the assets of the enterprise.

8. We can also consider during the course of the reform, establishing other asset relationships between the state and enterprises and from these asset relationships, it might be possible that enterprise assets will appear.

9. No matter what form of asset relationship is adopted between the state and enterprises, the additional investment by enterprises will, apart from the two avenues noted above, generally come from bank credit.

How to analyze the assets relationship when an enterprise obtains credit from a bank is a problem which the socialist component of political economics has been unable to resolve in a very satisfactory manner. The key

lies in how to analyze, from the material form angle, who gave (or more precisely, who loaned) the products and labor which an enterprise gets through the credit it obtains.

In studying economic problems, it is necessary to reveal the processes of both money movement and materials movement. A bank loaning money to an enterprise is only a process of money movement. However, after an enterprise receives this money, it can use the method of purchase to obtain various sorts of products from other enterprises or individuals. This can even result in the formation of assets. Here there is a contradiction: The bank which provides the credit to the enterprise does not have material goods. By providing credit to the enterprise, it does not mean that it is giving the enterprise a certificate to get goods from the bank's warehouse. The provision of products, labor and labor power to this enterprise by other enterprises or individuals is only a sales action, and they receive the appropriate price. This is not giving or loaning. Thus we have the following problem: The money which the bank loans this enterprise represents material goods, but the bank does not have material goods. How can it ensure that this enterprise obtains the material goods? Where will these material goods come from? These are questions which people do not ask, as they are used to only looking at the money movement and do not look deeply behind money to the movement of material goods. However, political economics should and can explain clearly.

I believe that with respect to this phenomenon there are two abstract methods of analysis: The first analysis method is: When a bank loans an amount of money to an enterprise, in fact at the same time, prices and the corresponding products are being "absorbed" from the society and placed in the hands of the bank. After the enterprise obtains this credit, it goes to the market to purchase these things. In fact, this is realizing the transfer of those things which the bank had "absorbed." If the bank is owned by the state, the bank in making a loan to an enterprise, is transferring the state assets it has "absorbed" to an enterprise for its use. The interest which the enterprise hands over to the bank is the price being paid to the state for the use of state assets. The interest received by the bank is the realization, on the economic level, of that which it "absorbed" and which had become state assets.

I feel that this method of analyzing the problem is, at a stretch, tenable. It accords with the logical principle that a person can only give that which he has. A bank has these material goods and subsequently provides a certificate by which goods which it has "absorbed" into its hands are given to an enterprise. However, this "absorption" is not directly perceived in society. The "absorption" can be seen by the state overdrawing on the bank and using the funds to make up financial deficits. The task of political economics lies in studying the nature of the mechanism of this absorption.

The second method of analysis is: Although the bank is state-run, the fact that it has given credit to an enterprise does not mean that the bank has given state assets to an enterprise to use. The provision of credit to the enterprise is not equivalent to giving the enterprise such a certificate for the enterprise to take to the state goods and materials storehouse to get products to an equivalent total value as noted on the certificate. Rather, it plays a role in redistributing the wealth of society. The bank represents society in exercising this role in redistribution of social wealth. The result of the bank exercising this function is that enterprises can, using the form of purchase, obtain from society products equivalent to the value of the credit. These products have not been absorbed by the bank into its own hands. Thus, the use of bank credit by an enterprise does not mean that it is using state assets, and interest is not paid for the purpose of using state assets.

I believe that this sort of analysis is also tenable, and I can provide detailed proof.

Which of these problem-analyzing methods we should accept or whether we should ignore both of them and adopt another method is a topic worthy of study. Discussion on this question however falls beyond the scope of this paper. Here, I would only like to make the following points:

I. There are two methods of looking at the assets which are formed with bank credit. The first is to affirm that they are the enterprise's assets, but that they are assets formed during the enterprise's production process. At the same time, the enterprise will have a debt corresponding to the money equivalent of these assets. The other method of looking at the question is not to look at the assets as the enterprise's own assets until after the credit has been repaid. The existence of these assets cannot be seen as the existence of enterprise ownership.

II. Whether or not these assets which are formed through bank credit are to be considered state assets is a question which needs to be clarified. This can be determined by deciding which of the two above-mentioned analysis methods is correct. If the first analysis method is the one which should be accepted, then we should recognize that the assets come under state assets. If the second method is the one which should be accepted, we should accept that the assets are a special form of social asset. However, regardless of the which method of analysis is accepted, as the bank has the right to receive interest for it, the bank holds the direct right of ownership.

III. After bank credit is repaid, the assets which are formed with that credit should, if not merged with existing socialist state assets, be enterprise assets.

IV. If we compare those assets in a socialist state-owned enterprise which have been formed through the use of bank credit and the enterprise assets which have been formed with funds accumulated by the enterprise and by

funds drawn in from society, we will see that they are similar in that they both require social conditions whereby they can be differentiated on the economic level from state assets. Their difference lies that in the latter already has a "self-owned" nature, while in the former case it is necessary to look at the degree to which the credit has been repaid. 10. Perhaps there are other avenues by which ownership by enterprises can develop from socialist state-owned enterprises. Of these, an important avenue is through implementing the stock system and establishing share companies to promote the sprouting, growth and development of ownership by enterprises in socialist state-owned enterprises. We will discuss this question later. Further questions such as are there the factors for the growth of socialist ownership by the enterprise in Chinese-foreign joint venture enterprises and so on are questions which are worthy of thought.

11. The system of ownership by enterprises which will develop within socialist state-owned enterprises during the course of reform is now at the sprouting stage. The system of ownership by enterprises has only begun to appear as one factor in some enterprises. Thus, in the socialist ownership form structure, this socialist ownership form which has grown in state-owned enterprises constitutes a very small proportion. Whether or not it can develop quickly will be decided by the pace of the reforms.

12. We will look again at the situation of sprouting, growth and development of socialist ownership by enterprises in socialist state-owned enterprises during the course of reform.

13. Take the following situation: There are some socialist social organizations or socialist individuals who want to earnestly develop socialist undertakings (including economic, cultural and other social undertakings) and they initiate the establishment of enterprises. When they found the enterprises, the state does not allocate them any funds, they themselves have no funds and they have not drawn in any funds from society. When these enterprises are founded, they rely entirely on bank credit to engage in their operations. If they operate well, they will obtain real profit and this net profit can be used to pay back not only the interest but also the principal. When this is done, the enterprises will no longer have debt and will have their own assets. If they are further well-operated for a long period, these assets will grow increasingly large. This is what people often call "first being a debtor in order to later become an assets holder." These enterprises were established in accordance with socialist principles, and from the beginning had not had a boss or shareholders, only a manager. Those people who engage in management and operations as well as the ordinary staff and workers receive distribution in accordance with the principle of distribution according to work. In such an enterprise, who actually owns the assets is a problem which has already actually occurred.

I think it is quite easy to answer this question. As state assets had never been involved, the problem of differentiating enterprise assets from state assets does not arise. Further, there is no question of whether the enterprise assets should be merged with state assets or not. The assets which accumulate in such an enterprise should belong to the enterprise itself. Such enterprises should be called enterprises which have socialist ownership by the enterprise (why we do not say that the accumulated assets belong to the collective and that they should be called collectively-owned assets is a question which will be specifically discussed below).

14. Although the number of such enterprises is not great at present, they will gradually increase. This is because China is a country which has gone through a long period of socialist reform and which has carried out over 30 years of socialist construction, and socialist consciousness has struck root deeply in the hearts of the people and in our country there are many socialist organizations and socialist people. They have a very high socialist enthusiasm and are willing to make a contribution to the socialist cause. People have been seeking effective measures to ensure that these hopes do not end up as empty words. It is thus that the type of enterprise noted above has emerged. As this type of enterprise has such a deep social base and profound historical causes, we should not overlook its prospects for growing increasingly numerous.

15. Specifically, there are many and diverse mechanisms for the establishment of this type of enterprise.

For example, our country has many educational, scientific and cultural organizations as well as other social organizations. If these organizations are to actively develop their work and develop their undertakings, of course they need necessary funds. However, at present, the state has difficulties in terms of finances and it cannot provide such an amount of money to these organizations. Thus some organizations, in accordance with social needs, have established the above type of enterprises and have used the profits to subsidize their own insufficiency of funds. Experience has shown that this is a road which can be travelled. As such organizations are very numerous and the situation whereby the state will not be able to supply necessary funds will exist for a long time to come, the number of the type of enterprise noted above may well grow increasingly numerous.

For another example, there are many socialists who do not work in socialist state-owned enterprises or related management organs, but who have enthusiasm for and dedication to socialist economic construction and who have experience and ability to engage in such work (For example, retired cadres who are still healthy and vigorous, or young people who have graduated from tertiary institutions with specialized knowledge and who want to engage in an undertaking). Even if they have no opportunity to play a role in existing socialist economic

organizations, there will be another road for them. There might also be people who do not like the existing management system and who want to explore roads which they consider are better and on which they feel they might accomplish something.

As a further example, among people engaged in political work, there may be some who consider that it is better to give work to an enterprise engaged in intellectual work than to have the work done by a government organ. In this way, some intellectual enterprises of an enterprise-ownership nature may appear.

16. I believe that one of the reasons this type of enterprise will grow increasingly numerous is that this type of enterprise has some aspects more advantageous than those of socialist state-owned enterprises. Among these enterprises, there have appeared some advanced enterprises which are well-managed, highly efficient in work and have good economic results. These have attracted people's attention. Because of the party and government's firm adherence to the basic line of reform and opening up, this type of enterprises has been given spiritual encouragement, things have been made convenient for them in their actual work and they have been taken into consideration when policies have been decided upon. Thus, in the last few years, this type of enterprise has seen the beginnings of vigorous development. Theoretical circles should naturally also carry out analysis of these enterprises and provide a theoretical summary and appraisal.

17. As far as the present situation is concerned, we only need to say that in the reforms, enterprises with socialist ownership by the enterprise will gradually grow. There is no way to predict the speed at which they will grow. As socialist ownership by enterprises is a basic form of socialist ownership, as a component part it can combine with other basic forms of socialist ownership to form non-basic forms of socialist ownership. Thus, if we take such non-independent economic forms into consideration, the proportion of ownership by enterprises will increase. Although at present its proportion in the total structure of socialist ownership forms is insignificant, its development prospects are very worthy of attention.

18. Now, we will talk about whether or not the system of ownership by enterprises existed prior to the reforms. Some comrades hold that the urban "large collective" enterprise which have existed for many years in our country and which constitute quite a proportion in the ownership form structure are, in their nature, a type of enterprise with socialist ownership by the enterprise. The logic is: "large collectives" are different from "small collectives" in that they are not enterprises collectively owned by the laborers. The owners of "small collectives" are fixed collectives of laborers and the net income obtained by a "small collective" enterprise is distributed through the form of shared dividends to the various laborers who participate in this collective. If this "small collective" stops operating, the assets of the enterprise

should be divided among the various laborers participating in this "small collective." However, in a "large collective" there is no fixed collective of laborers who are the owners of the enterprise. The people who participate in labor in the "large collectives" are, like the people who participate in labor in socialist state-owned enterprises, workers who draw salaries. In the distribution in the enterprise of the fixed income of the enterprise, there is no such thing as "distribution of dividends." If such an enterprise stops operation, the enterprise's assets cannot be divided among the workers who labor in the enterprise. These characteristics are not the characteristics of collectively-owned enterprises. Previously, people referred to "large collectives" as "large collectives, small whole-people operations." This is not a precise definition. In fact, they are not collectively-owned enterprises and thus they cannot be called "large collectives." Neither are they state-owned enterprises and should not be called "small whole-people operations." The state does not manage them like it manages state-owned enterprises. At the same time, not only do their assets not legally belong to the state, but the state cannot, using the name of owner, levy asset tax on their assets (land tax can be levied however). It appears that it is possible to consider the assets of such enterprises to be enterprise assets and to see such enterprises as a type of enterprise with socialist ownership by the enterprise.

"Large collectives" are not products of the reforms. This socialist ownership form appeared long before the reforms and is a phenomenon which should be paid great attention in the economic history of the country since the founding of the PRC. Its emergence was due to different factors and there were different processes of emergence. Some processes were rational and some were irrational. However, regardless of the historical process, it should be said that the existence of this socialist ownership form today accords with the current situation of the social productive forces in our country.

19. Will socialist ownership by enterprises emerge from the system of collective ownership by the rural laboring masses?

Prior to the reforms in our country's rural areas, there existed the people's commune system with "three levels of ownership, with the production team as the base." After the reforms, the basic forms of rural collective ownership were the family contract system and rural industrial enterprises. Generally speaking, at present, the basis of industrial production is the rural household. The village households contract with the village collective, and they use collectively-owned land and other various means of production. Using the form of an agreement, the household promise to undertake a certain task, in recognition that the assets are collective. However, the village collectives have done service work for the rural households, have developed industry and have striven to obtain from industry quite good economic benefits. To a certain degree industry has therefore been used to supplement agriculture. Thus, if we say that ownership by

enterprises can emerge from the system of collective ownership by the rural laboring masses, it is probable that it will emerge in rural industry. However, I do think that this is very unlikely as, apart from a small number of areas where rural industry is especially developed, the scale of the industries in villages is very small and it is quite easy for the collective to manage such enterprises. Thus, it is unlikely these enterprises will become enterprises in which there is ownership by the enterprise.

20. The question of which ownership form township and town enterprises come under is one which should be thought about. People say that the nature of such enterprises can be considered to be socialist state ownership. This is reasonable as these enterprises are run by township and town governments, a fairly high proportion of the economic benefits of the enterprises becomes financial revenue for the township and town governments, and the township and town governments are state organs. However, in terms of management system, the township and town enterprises are different from socialist state-owned enterprises. The relationship between them and the township government is almost the same as the leasing system instituted in socialist state-owned enterprises. In general, the township and town governments, apart from requiring that the township and town enterprises hand up a certain amount of money, give the enterprises quite a great degree of freedom. This is the reason township and town enterprises have been able to develop quite quickly. The difference between them and leased enterprises is that there is not the problem of whether or not to sign another lease contract after one leasing period expires. Thus, the relationship between the enterprises and the governments is stable. Therefore, the conditions for the emergence of ownership by the enterprise in township and town enterprises are generally speaking better than the conditions for its emergence in socialist state-owned enterprises.

At the same time,, township and town enterprises are to a large degree dependent on bank credit for the funds they require on establishment. This also gives township and town enterprises an enterprise ownership nature.

However, it must be recognized that the problem of township and town enterprises in terms of a form of socialist ownership is a very complex problem. It is very likely that they are a non-basic form involving a combination of ownership by the state and ownership by the enterprise.

21. In passing, we should consider the question of local state-run enterprises. The original meaning of local state-run enterprises was socialist state-run enterprises. However, these are being increasingly run and managed by lower-level governments and their scale is becoming smaller. The system and methods by which the governments run the enterprises are different from those used in the enterprises run by the central authorities, in the first-level enterprises run by provinces, municipalities, autonomous regions and in those enterprises managed

by the large and medium-size cities. The dividing line between township and town enterprises and county and prefectural government-run enterprises is not a sharp division. Township and town enterprises can on the one hand be seen as not very different in nature from the state-owned enterprises run by the next-higher level of government and on the other hand they are quite similar to village-run industrial enterprises and come under socialist ownership by laborers' collectives.

Strictly speaking, our country's enterprises which are collectively owned by rural laboring masses are not collectively-owned economic organizations organized by individual laborers on the principle of voluntary participation. Rather they are collectively-owned enterprises of the whole community. Within the limits of a village, all the residents are members of this economic organization. The development of such a socialist ownership economy is inseparable from the development of this community. This "collective ownership" economy with a community ownership nature can be expanded to the range of a township or a town, resulting in a single township or town enterprise being situated in this type of ownership economy.

22. There is another situation at present whereby many of the large and medium-size socialist state-owned enterprises run subsidiary enterprises, such as labor service enterprises. These enterprises are independent accounting units, but their establishment is completely dependent on the state-owned enterprises. When they are established, they use the funds of socialist state-owned enterprises. In the articles of association, these funds are usually provided to these enterprises through the form of credit, but generally no interest is charged. The funds provided to these labor service type enterprises by the state-owned enterprises are to a large degree of a helping nature. At the same time, in terms of housing, cadres, raw materials, information and many other aspects, they give these enterprises a great degree of convenience. Of course, the running of such enterprises brings many advantages to these socialist state-owned large and medium-size enterprises: They assist in improving the welfare benefits for the staff and workers of the enterprises and in resolving the employment problems of the sons and daughters of the staff and workers. Such enterprises cannot be called socialist state-owned enterprises. In their articles of association, they are independent enterprises. At the same time, they are not collectively-owned enterprises and different to the independent "large collectives" (they are very similar in many respects to "large collectives", but the two are different in terms of reliance on socialist state-owned large and medium-size enterprises). In terms of the ownership in this type of enterprise, there are different ideas: one says that within the enterprises themselves there are enterprise ownership factors; another holds that they are appendages of the socialist state-owned enterprises and they have no significance as a independent socialist ownership form; it is also possible to claim that in essence they are enterprises collectively owned by the enterprises' staff and workers.

23. In summary, from the descriptions and analysis above, we can reach the following conclusion: the route toward the sprouting, growth and development of socialist ownership by enterprises is not a single road, but numerous and diverse roads. Ownership by enterprises has already become a form which cannot be overlooked and it should be affirmed in theory. Research should be carried out into its patterns and further research should be conducted into the main avenues of development for socialist ownership by enterprises. Only by examining the various avenues for the sprouting, growth and development of ownership by enterprises in an overall way and at the same time grasping the most important basic avenues whereby ownership by enterprises can develop, and then carrying out a comprehensive assessment by combining these two aspects, will it be possible to gain an overall understanding of the development prospects for ownership by enterprises.

24. Now let us discuss an abstract theoretical question: Is this concept of socialist ownership by enterprises tenable? In our discussion above, we assumed that this was not a problem (or assumed that it had already been resolved).

25. This question can be looked at from several angles:

I. Does whether or not the concept of ownership by enterprises is tenable in the capitalist system determine whether or not an enterprise can become an owner of assets? Why do we say that the system of ownership by enterprises which is beginning to sprout and develop in our country today is socialist ownership?

II. Where lies the difference between ownership by enterprises and ownership by the state, and in particular the difference with collective ownership by the laborers within an enterprise?

III. Are the concept of enterprises having their own assets and the concept of ownership by enterprises the same concept?

26. The first question: Does ownership by enterprises exist under the capitalist system?

In those private capitalist enterprises where individual capitalists use their own funds to engage in operations, the means of production belong to the capitalist, not to the enterprise. The enterprise is but a set-up in which the private capitalist uses the means of production which he owns to engage in operations. This assessment clearly needs no discussion.

What is worthy of study are private capitalist enterprises where the enterprise head borrows money in order to engage in operations and the question of whether or not ownership by the enterprise exists in stock companies.

27. First, let us discuss private capitalist enterprises where the enterprise head borrows money to run the enterprise.

There are two types of private capitalist: the first is the one who engages in operations by himself. This type of capitalist is called an industrial capitalist; there is another type who does not himself engage in operations and simply relies on interest income from capital lent out. These are called money capitalists and also called interest-earning capitalists. These two types of capitalists "play entirely different roles in the reproduction process." "One merely loans capital, the other employs it productively." ¹ All subsequent references are to this volume of this book and thus all that will be noted will be the page number from which the quotation is drawn.) Industrial capitalists can be further divided into those who use their own capital and those who borrow capital to engage in operations. Of course, whether the industrial capitalist entirely uses his own capital or entirely uses borrowed capital to engage in operations can be said to be just theoretical abstraction. In fact, "the majority of industrial capitalists, even in different numerical proportions, work with their own and with borrowed capital, and at different times the proportion between one's own and borrowed capital changes." ² However, in order to clarify the objective patterns of things, it is still of relevance to distinguish these two types of capitalists.

If we assume that an enterprise entirely uses borrowed capital to engage in operations, would there exist ownership by the enterprise?

Marx calls the enterprise head who engages in operations entirely through borrowed capital, a "non-owner of capital." Here "ownership (rights)" ³ of the capital is represented in relation to him by the money-capitalist, the lender." ⁴ That is to say, in this sort of enterprise, the money-capitalist is the master of the assets. However, although these enterprises entirely use borrowed capital, they have their own capitalist as the head. This sort of capitalist is called a purely functional capitalist or enterprise head. If this enterprise has any ownership, it is ownership by the enterprise head and not ownership by any other enterprise. Thus, in a private capitalist enterprise, even if it relies entirely on borrowed capital to operate, ownership by the enterprise does not exist. If later, a part of the enterprise head's income is used to repay the creditor, and thus he has his own assets, these assets belong to the capitalist who operates the enterprise and not to the enterprise. The enterprise is always just a structure in which the capitalist engages in operations and is not an owner of capital.

28. Here I want to talk a little about why the head of an enterprise which entirely uses borrowed capital to engage in operations is also a capitalist. In "Das Kapital" Marx called this sort of enterprise head a "purely functional capitalist." ⁵ This is because he does not possess capital. In terms of the possession of money capital, he is a "non-owner of capitalist." ⁶ However, he still represents

capital and is the "personification of capital." It is just that "he represents capital only as functioning capital,"⁷ "in the production process, which yields a profit of enterprise through its function."⁸ However, he does not represent capital "before the production process and outside of it." He who represents this capital is the "lender of the capital ownership (rights)."⁹

Having divided the capitalists into functioning capitalists and money-capitalists, we must note that these two types of capitalist are mutually dependent. Only if the functioning capitalist borrows money from the money-capitalist will he be able to employ people and engage in exploitation.

Marx speaks of this as: "In the process of reproduction, the functioning capitalist, as representative of the capital owned by another person, stands in opposition to the employed workers"¹⁰. Although the functioning capitalist is not employing his own capital, he can engage in exploitation of labor in the production process and obtain surplus value, which is subsequently paid in part to the money-capitalist in the form of interest. As far as this sort of enterprise is concerned, where capital for operation is borrowed from another person, the characteristic of separation between operation and capital ownership does not exist. Quite the contrary, it has the characteristic of operation and capital ownership being linked. If he were not linked with the money-capitalist, the purely functioning capitalist could not exist. If this is the case for individual capitalists, it is also the case for the whole body of capitalists. Only if the entire capital of society is divided into the two forms of money capital and industrial capital, and there is an appropriate distribution and linkage between the two forms of capital, is it possible for modern capitalist production to proceed.

Some economists understand the thesis in the 23d chapter of Volume 3 of "Das Kapital" about the division between money-capitalist and functioning capitalists to be saying that the first-mentioned has the ownership rights over capital, while the latter has the operating rights over capital. They understand the division to be an example of the separation of ownership rights and operating rights. In regard to this idea, I think we can say that in capitalist enterprises which have borrowed money for operations, there does exist a separation between the people who represent the capital before the production process and those who represent it during the production process. However, this separation is not separation between the production process and capital. If it was a "separation between the production process and capital," the production process would be "an ordinary labor process" and would not be a capitalist production process.

In private capitalist enterprises which borrow money for operations from money-capitalists, not only the capital outside the production process belongs to a capitalist

(the interest-earning capitalist) and not to the enterprise, but the capital during the production process also belongs to a capitalist (the functioning capitalist), and not to the enterprise.

29. Now, let us examine the question of whether ownership by the enterprise exists in stock companies under the capitalist system.

Stock companies are different from private capitalists' enterprises. Marx noted that stock companies developed due to "the enormous expansion of the scale of production and of enterprises that were impossible for individual capitalists." He also said that some stock companies have been "transformed" from enterprises previously operated by the government.¹¹ In stock companies, capital is "directly endowed with the form of social capital (capital of directly related individuals) as distinct from private capital and its undertakings assume the form of social undertakings as distinct from private undertakings."¹² Here Marx clearly sets down the distinction between stock companies and private capitalist enterprises, and looks at stock companies as different from private capitalist enterprises.

In stock companies, apart from the decisions made when stockholders, though the board of directors, exert influence in respect of major policies, all operational activities are handled by the company manager. Thus, the stockholders become people who have nothing to do with the operations of the enterprise and obtain their economic benefits only through their possession of capital. In this respect, the stockholders are no different from the interest-earning capitalists and thus their income is in the form of "interest." However, stockholders differ from the interest-earning capitalists in that not only do they obtain the interest which the interest-earning capitalist obtains, but they also get the functioning capitalist's "enterprise head's income" as their own income. That is to say, the stockholders obtain the total profits of the enterprise. In the stock company, the manager who handles the operations does not receive the "enterprise head's income" and "only receives the wage of a specific type of skilled labor, whose price is regulated in the labor market like that of any other labor."¹³ However, as the stockholders do not engage in operations, although they obtain the total profits "this total profit is received only in the form of interest, that is as mere compensation for the ownership (rights) of capital."¹⁴ Thus, we should see the stockholders as "mere owners, mere money-capitalists."¹⁵ However, they are a special type of money-capitalist who takes on the risks of enterprise operations.

The division of power between the manager and the chairman of the board in a stock company differs with different companies. However, it is beyond dispute that the manager of a stock company has very great power. In operations, he has the enterprise's material goods and, within the scope of his powers, he can use them, allocate them and dispose of them. However, he is an employee

appointed by the board of the stock company and liable to dismissal by the board. The manager of a stock company only receives a salary. As distinguished from the enterprise head who engages in operations, as we have detailed above, he is not an actual functioning capitalist. Although the manager enjoys very great power in enterprise operations, it cannot be said that he owns any assets. The money and material goods possessed by the enterprise are the property of the stockholders who are a special type of money-capitalist.

Marx made the following summary: "The stockholding system involves "the transformation of the actually functioning capitalist into a mere manager, administrator of other people's capital, and of the owner of capital into a mere owner, a mere money-capitalist." ¹⁶ In the stockholding system, there is only one type of capitalist, and the distinction between the interest-earning capital and the industrialist capitalist does not exist.

Marx also used the "complete divorcing of the ownership of capital from the function in the actual process of production," "just as this function in the person of the manager is divorced from capital ownership (rights)" to describe and sum up this situation. As to the industrial capitalist borrowing other people's capital to engage in operations, here Marx did not speak of this. Marx spoke very clearly about this division which occurs in stock companies. He also wrote: In a stock company "the means of production are alienated from the actual production, an antithesis, as another's property, to every individual actually at work in production, from manager down to last day-laborer. In stock companies, the function is divorced from capital ownership (rights), hence labor is entirely divorced from (ownership rights to) the means of production and ownership (rights) to surplus labor." ¹⁷ This is very clear but I think that there is still a problem which needs to be resolved. That is, in a stock company, how can there be consistency between the complete division between capital ownership and the function of reproduction and the owners of capital obtaining enterprise head income equivalent to their capital as represented in the production process? There is another problem, which is essentially a different way of putting the question above. Since, in a stock company, the function is separated from capital ownership and the function of capital should not be carried out by the owners of the capital, who in the stock company should represent the handling of functioning capital in the production process? The answer to this question is contained in Marx' words that "the manager is an administrator of other people's capital." For an enterprise head who uses other people's capital to engage in operations, although the capital is borrowed, he is not the manager of other people's capital. Rather, he is the owner of the borrowed capital. For the manager of a stock company, in respect of capital within and during the production process, he is but the manager of the capital. The capital belongs to the money capitalists. However, these money-capitalists who at the same time represent the capital in the production process, do not

directly engage in operations and instead employ managers to operate the enterprise. The function of capital in the reproduction process is carried out under the management of their manager. However, their manager does not represent the capital in the production process.

On this basis, I believe that we can completely affirm that ownership by the enterprise does not exist in stock companies, as all the capital within the enterprise has its own master.

30. Under the capitalist system, there are also cooperative enterprises which are organized by the workers themselves. The ownership of the material goods of such enterprises lies with the collective of workers which established the cooperative enterprise and who work within the the enterprise. In worker cooperatives there does not exist enterprise ownership.

31. In brief, under the capitalist system, there do not exist enterprise assets or ownership by enterprises, and enterprises are not the owners of assets.

32. When looking at whether or not the concept of ownership by enterprises is tenable, we also need to look at the socialist system. I believe that an affirmative answer can be given to the possibility of establishing this concept under the socialist system. The logic is that ownership by enterprises is essentially only a form of social ownership, and social ownership is the basic essence of socialist ownership. Socialist ownership has many types of basic forms, but one of their basic essentials is that they all come under social ownership. Thus, in respect of the question whether the concept of ownership by enterprises is tenable, the socialist system and the capitalist system provide completely different backgrounds. The problem we face is not whether or not there is the possibility of ownership by enterprises, but whether or not it already exists, whether it will sprout and grow during the reforms and its development prospects. Of course, there is also the problem of gaining a clearer understanding of the qualitative patterns of this type of ownership.

33. Now we will discuss the second question put forward in section 25, the question of the differences between ownership by enterprises and state ownership, and especially the question of how it differs from ownership by the laborers' collective within an enterprise.

We have above said much about the difference between ownership by enterprises and state ownership. A basic idea is that we should look at whether or not there are differences between an enterprise using these assets and using state assets. Now, we need to speak a little about whether or not ownership by enterprises is ownership by the laborers' collectives within the enterprises. This question is extremely important because if we accept that ownership by enterprises is ownership by the laborers' collective within the enterprises, the concept of ownership by enterprises will become superfluous.

34. In the end, the question of ownership is a question of economic benefit relationships. Whoever is the owner of assets can, through their ownership rights, obtain commensurate economic benefits. This is the first reason for advocating that ownership by enterprises is ownership by the laborers' collective within enterprises.

Workers are the masters of socialist society, and also the masters of enterprises. In respect of many activities of enterprises, the workers collective has a major right to speak. Corresponding with the laborers' collective position as master in an enterprise, there are organizations such as workers' congresses in socialist enterprises. The workers' congress in an enterprise also enjoys a position different from the labor unions in capitalist enterprises. Ownership by an enterprise is ownership by the laborers collective which is the master of the enterprise. This is another reason for advocating that ownership by enterprises is ownership by the laborers' collective within the enterprise.

After studying these reasons, I still believe that we cannot equate ownership by enterprises with ownership by the laborers' collectives within enterprises. The basis of this is: Although collective ownership, which is a form of socialist ownership can be diverse and varied, it always has its own basic patterns. First, there must be a clearly fixed collective of laborers as the master of the enterprise, who have the highest power in terms of the assets and operation of the enterprise; Second, there must be clear assets which belong to this collective; Third, there must be organs and systems by which the laborers' collective carries out management and supervision of the enterprise; Fourth, when this laborers' collective allocates the profits of the enterprise, after taking out all necessary deductions there must be a division of the profits among the individuals of the collective. Seen from these general characteristics of collective ownership, the characteristics of ownership by enterprises and collective ownership are very different. In the enterprises we are discussing, the position of the laborers' collectives is not sufficient to show that in the enterprise they are the owners with the highest power. It only indicates that they have an important position in the enterprises. At the same time, the workers in enterprises with enterprise ownership can freely move between enterprises. Their relationship with the enterprises is very different from the relationship of workers in a collective ownership enterprise to the enterprise. Also, it is not stipulated, either in writing or otherwise, that the assets in an enterprise with enterprise ownership belong to the laborers' collective. This becomes more evident when an enterprise closes down. The labor income of the laborers of the enterprise is also in the form of wages. Apart from bonuses which the various types of enterprises have, there is no form by which the profits of the enterprise are distributed among the enterprise laborers.

In brief, I cannot accept the idea that ownership by an enterprise is ownership by the laborers' collective within

the enterprise, but at the same time should affirm that this type of ownership system brings laborers' collectives good benefits.

35. Continuing now with the third question in section 25, are enterprises assets and ownership by enterprises the same concept?

In this outline, I have used "enterprise assets" and "ownership by enterprises" as synonyms. For example, the appearance of enterprise assets in socialist state-owned enterprises is taken to mean the appearance of enterprise ownership. Two types of situations need to be mentioned: The first situation is where enterprise assets exist in enterprises which are entirely or basically enterprise-ownership enterprises; the other situation is where enterprise assets, as a type of element or component, exist in other socialist ownership enterprises. Regardless of the situation, they are all enterprise assets and they are all owned by the enterprises. As ownership by enterprises is a basic form of socialist ownership, it is not formed through the combination of other basic socialist ownership forms. Thus it can combine with other basic forms of socialist ownership to form various types of non-basic socialist ownership. Not being a combination of other forms but being able to combine into other forms is a characteristic of the basic forms of socialist ownership.

36. Although above we have already said that ownership by enterprises can only exist under a socialist system, it would still be more accurate to call it "socialist ownership by enterprises." This would make its socialist nature more clear. It possesses all the characteristics required of a socialist ownership form, such as enterprise production goals, external relationships of the enterprise, and relations between the internal managers of the enterprise and the ordinary staff and workers.

37. Now let us talk about the overall problem of the fate of the state ownership system which is undergoing reform and the prospects for the development of ownership by enterprises. After having studied the changes and developments from the angle of state ownership and ownership by enterprises, we can now look at these questions from the overall angle of reform.

38. The socialist economic system includes two basic aspects, and one of these is the structure of socialist ownership forms. The structure of socialist ownership forms includes: 1. Which socialist ownership forms are in the socialist ownership system. 2. Specifically, what the various socialist ownership forms are like. 3. What proportion the various socialist ownership forms constitute in the overall socialist ownership system. 4. The types of relationships between these socialist ownership forms, and what sort of relationships all the socialist ownership forms have between them in organically combining to form the overall socialist ownership system. The question we will look at now is the question of the changes which have taken place in various aspects during

the reform of the overall structure of socialist ownership forms. This cannot be separated from research into the overall structure of socialist ownership forms.

39. In the structure of socialist ownership forms, which socialist ownership forms are there in fact? In the past the answer to this question was two forms of socialist ownership. These were socialist state ownership (also called whole-people ownership. Together with many economists, I feel that the concept of whole-people ownership is not very scientific, and that it is better to use the concept of socialist state ownership) and socialist collective ownership by the laboring masses. Now it seems that this would be an inaccurate answer. Even before the reforms, this division of one into two had already been broken through. This division of one into two (including the term of whole-people ownership) came from the practice of the Soviet Union and from Stalin's works. Even before the reforms, it could not accord with our country's actual situation. However, on the theoretical level, no-one dared to break through this idea, and this gave rise to the term "large collective/small whole-people operation." Now, we want to show that there is at least ownership by enterprises which does not come under state ownership and does not come under collective ownership. In the structure of socialist ownership forms, we must also include the non-basic forms of socialist ownership. I intend to write a separate article on this question.

40. In the concrete structure of socialist ownership forms, every basic form of socialist ownership has its own characteristics and has its "sub-forms." Socialist state ownership is like this, socialist collective ownership by the laboring masses is like this and ownership by enterprises is also like this. Now, as we are in the initial stage of socialism and also in a period of reform, the theoretical and practical significance of specific research into the various types of socialist ownership forms is even greater. This specific research should not only be in terms of affirming the various basic forms of socialist ownership, but must also go deeper to the non-basic forms of socialism. Engaging in deep and specific research into the various socialist ownership forms requires an examination of those non-basic forms which are subordinate to it. We also need to study the question of how several basic forms can combine to form the diverse types of non-basic forms. We can talk about this later.

41. In the issue of the historical fate of socialist state ownership and the prospects for the development of ownership by enterprises, the proportions these two socialist ownership forms constitute in the overall system of socialist ownership is an important question which needs to be studied. I do not believe that socialist state ownership will disappear in the process of reform. I believe that not only will socialist state ownership from the second source live as long as the state apparatus, but also that direct socialist state ownership will not disappear in the reforms. The changes which will occur in

socialist state ownership during the reforms can be looked at from two angles: The first is whether socialist state ownership will remain as pure as before, and the proportion it will constitute in the overall structure of socialist enterprise forms. The second is what sort of changes will occur in ownership by enterprises during the reforms and how they will develop.

In studying the proportions of the various socialist ownership forms, we should compare the proportional relationships between the various basic forms of socialist ownership. It is of no significance to compare a particular socialist ownership form with non-basic forms of socialist ownership which are subsidiary to it or other socialist ownership forms. It is likewise of no significance to carry out a comparison between it and the socialist ownership forms which are created by a combination of itself and other basic forms of socialist ownership. Such a comparison will only be of significance if it is carried out between two basic forms.

The basic forms exist both in enterprises which entirely or basically involve this basic form, as well as in enterprises which have other basic forms of socialist enterprises as their main part. Thus, when carrying out the above-mentioned comparison, we need to combine the figures for a particular socialist ownership form as it exists in these two situations and carrying out a comparison on this basis.

Of course, it may be of great significance to carry out a comparison of the economic power of all those enterprises which are entirely or basically of a particular basic form and the economic power of enterprises which involve a combination of basic forms.

42. When exploring the question of non-basic forms of socialist ownership which comprise a combination of various basic forms, we need to go into the fourth aspect of the structure of socialist ownership forms. This fourth aspect involves the questions of the complementary aspect, and the antagonism and struggles between the various socialist ownership forms, as well as their mutual promotion, mutual exclusion and mutual replacement during development. The emergence of socialist ownership by enterprises in socialist state ownership involves, to a certain degree, the replacement of socialist state ownership. However, although it may reduce the proportion of state ownership in an enterprise, it will not reduce its absolute value. Of course, the question of the relationships between the various types of socialist ownership cannot be separated from the question of the socialist economic movement mechanism. However, as this is not directly connected with what we are discussing, it will not be addressed here.

43. Here I will make an overall summation of my thoughts on this outline. Due to the innate shortcomings of direct socialist state ownership, it is inevitable that during the reforms, quite major changes will occur in terms of socialist state-owned enterprises and the state's management of them.

One of the results of the changes, as far as the internal aspects of enterprises are concerned, will be that new socialist ownership forms will appear. Thus pure state-owned enterprises will develop into socialist-ownership enterprises comprising many types of socialist ownership forms, that is, non-basic form enterprises. The basic form of socialist state ownership will not disappear during the reforms. Its absolute economic strength may be maintained at its present level, may decline a little or may indeed continue to grow. However its relative proportion will most likely decline. Seen from the overall structure of socialist ownership forms, the same will probably apply. The future structure of socialist ownership forms will very likely be a structure where composite non-basic forms constitute the majority. Thus carrying out a comparison between the economic strength of the enterprises which are entirely or basically constituted by a single basic form of socialist ownership, and the economic strength of the enterprises which are comprised of composite non-basic economic forms will be of great significance in studying the changes in the proportions they constitute. The proportion of ownership by enterprises will grow and may grow to hold a powerful position in the national economy. However, as to the speed at which it will develop, this will depend on changes in the objective and subjective conditions.

44. Here I will add a little on the question of ownership by enterprises under the socialist system. In the past, in affirming the existence of ownership by individuals in socialist and communist society, the understanding was restricted to means of livelihood. However, this understanding has long been broken through in real life. Although what residents save is finally for consumption, in actual economic life, quite a proportion of the money they save has been used in production, and been transformed into production circulating funds. Various cooperatives of individuals have cooperated in founding cooperative enterprise. If an individual in these enterprises, apart from contributing labor, also contributes individual funds, in the cooperative ownership there will also exist individual ownership elements and components. At present, in our stockholding system experiments, many enterprises have drawn in funds from their staff and workers in exchange for shares and others have sold shares to people in society. In addition, some enterprises have sold debentures and people have purchased the debentures sold by enterprises. This is a further affirmation of ownership by individuals. This ownership by individuals is socialist enterprise individual ownership, while the individuals who have the money to invest in production and circulation are socialist laborers. This ownership by individuals should be seen as socialist in nature and should be seen as socialist ownership by individuals.

45. The question of the shareholding system under a socialist system is related to the question we are examining.

In "Das Kapital" Marx said: "This result of the ultimate development of capitalist production (referring to the

establishment of the stock company-citer) is a necessary transitional phase towards the reconversion of capital into the property of producers, although no longer as the private property of the individual producers, but rather as the property of associated producers, as outright social property." ¹⁸ However, that which was established during the process of the socialist revolution was socialist state-owned enterprises and the form of stock companies only appeared in our country during the process of reform. However, they are still in the experimental stage. The report to the 13th Party Congress contained the following in respect of the stockholding system: "Various forms of the system of shares in enterprises have appeared during the reforms. These include purchase of controlling shares by the state and purchase of participatory shares by departments, localities and other enterprises, and by individuals. This system is one way of raising money for socialist enterprises and can be further implemented on a trial basis." This is a cautious affirmation of the stockholding system by the CPC.

The stockholding systems now being experimentally implemented in China are non-basic socialist ownership forms. When the 13th Party Congress report noted state purchase of controlling shares and departmental, regional and enterprise purchase of participatory shares, it was mainly referring to socialist state-owned enterprises. However, it did not exclude other socialist ownership forms investing in stocks and did not exclude socialist collectively-owned enterprises and socialist enterprise-ownership enterprises adopting stockholding forms. At the same time, the socialist state-owned enterprises which have adopted a stock company form have gradually seen changes. They are no longer large pure socialist state-owned enterprises, and among them other basic forms of socialist ownership exist.

46. Some articles have noted that ownership by enterprises will replace socialist state ownership and become the socialist ownership form in the leading position in our country's socialist ownership form structure. My view is that combined forms of the various types of socialist ownership will replace present socialist ownership form which is entirely socialist state ownership, and that these will occupy a leading position in the socialist ownership form structure. The internal structure of these combined forms will continually undergo changes in the initial stage of socialism, that is in the present stage of reform. The stock company is a composite socialist ownership organizational form which may see major development, as this form provides the greatest convenience in organizing the various socialist ownership forms in an enterprise. This form which appeared in the high stage of development of the capitalist system provides a good form for organizing social assets.

47. The socialist economic system not only includes the socialist ownership form structure, but also the socialist economic movement mechanism (the socialist state's management of the national economy comes within the range of the socialist economic movement mechanism).

We must, at the same time as stressing the reform of socialist ownership, pay a great deal of attention to the reform of the socialist economic movement mechanism. After affirming that a socialist economy is still a commodity economy, the establishment and development of a socialist commodity economy system is an extremely pressing task. The reform of the structure of socialist ownership forms will be promoted by the development of commodity economy relationships. The development of the commodity economy not only requires the breaking down of the ossified divisions between regions and departments, but also demands the breaking down of the ossified divisions between the socialist ownership forms, and the establishment of lateral relationships. The forms for developing lateral relationships are very numerous, and they range from loose relationships to semi-loose-/semi-close relationships to stock companies which cut across departments, regions and socialist ownership forms. Beginning in 1979 with the institution of household contracts in the rural areas, the reform of the structure of socialist ownership forms has been the characteristic and the strong point of our country's reforms. In this respect, we have accumulated rich and valuable experiences. Reforming socialist state ownership is the focus of the reforms today and this will remain so for quite some time to come. It is very likely that the results of the reforms will be manifested, at some time in the future, by the widespread establishment of stock companies. The difficult part of realizing major progress in this respect will be in establishing a market system, which will also include a stock market.

48. The putting forward of the reform tasks has an objective historical background. The development process of reform has objective patterns, but people's subjective activities in practice can play a role in the course of reform. In respect of the reform of the structure of socialist ownership forms, people's subjective dynamic role—and especially the policies and major measures formulated through social guidance and reform of the organizational center (also called the leadership center)—will play a major role. If the policies for reforming socialist state ownership accord with objective demands and the objective patterns, the speed of reform will be quite swift. This means that the correctness of policies must rely on scientific research into the objective demands and objective patterns of reform. It should be recognized that our research into objective things at present is not sufficiently full. A prominent phenomenon among research workers at present is one where without doing full research into objective things, they rush to formulate counter-measures. Science is the study of factual things. Doing scientific analysis into objective things is of course much more difficult than putting forward a few ideas on the basis of incomplete study. It is necessary to talk about a few ideas to provide people with inspiration, but this cannot replace doing real concrete analysis of specific things.

49. When I was preparing to give lectures on the socialist component of political economy, I originally used the title "On the Fate of of State Ownership Which is

Undergoing Reform and the Prospects for the Development of Ownership by Enterprises." Later I dropped the first word "On" and added "Thoughts On." This was not an arbitrary change. Rather, as I certainly could not write an article which was quite fully argued and presented in a tightly logical manner, I was only able to record my thoughts on these topics. Before writing these thoughts, I did not know what my thoughts would produce. I had not reached any conclusions and I adopted the attitude that I would accept any conclusions which were logically deduced, and then put these down on paper. The results of my thinking have left many problems unresolved and left many tasks for investigation and research.

50. I have come very late to the study of this question. Many comrades have conducted earlier more voluminous research on this question. There is specific reason I have written these things. My doctoral student Comrade Zhong Dong [1813 2639] wrote a doctoral thesis entitled "On Ownership By Enterprises." As he was to defend his thesis, I as his teacher would have been unqualified to comment on it if I had not done a little research. When thinking about this topic, I also read a few articles, and obviously had to read Chong Dong's thesis. Some of my ideas have been inspired by his thesis. Although his thesis was passed by all examiners, I believe that it is an unfinished work. It is an official thesis, quite different in its nature from these "thoughts" of mine. One should be rigorous in one's requirements and I am willing to assist him in completing his thesis. In respect of the problems I have not yet resolved, I will also be able to think about them as I carry out my teaching and guidance duties.

Footnotes

1. Marx: "Das Kapital" Vol. 3, RENMIN CHUBANSHE 1975 edition, p 418

2. p 422

3. In Marx and Engels' German works, ownership, the system of ownership and property are expressed using one German word. What Marx and Engels strictly differentiated were ownership and ownership rights. However, in the Chinese translation of "Das Kapital", ownership and ownership rights are used in a confused way. Thus when citing passages where "ownership" is translated as "ownership rights," brackets will be used to enclose the "rights."

4. p 419

5. p 420

6. p 420

7. p 419

8. p 421

9. p 420

- 10. p 427
- 11. p 493
- 12. p 493
- 13. p 494
- 14. p 494
- 15. p 493
- 16. p 493
- 17. p 494
- 18. p 494

PROVINCIAL

Bu He's Government Work Report

SK2507232488 Hohhot NEIMENGGU RIBAO in Chinese 11 Jun 88 pp 1-3

[Government Work Report delivered by Bu He, chairman of the Inner Mongolian Autonomous Regional Government, at the first session of the seventh regional People's Congress on 25 May 1988]

[Text] Fellow deputies:

On behalf of the regional people's government, I now submit a report on the work of the government for examination and approval by the present session.

1. Review of the work done over the past 5 years.

It has been 5 years since the first session of the sixth regional People's Congress in 1983. Under the correct leadership of the CPC Central Committee, the State Council, and the regional party committee, over the past 5 years, we have conscientiously implemented the line, principles, and policies put forth the 3d plenary session of the 11th party Central Committee, and a series of resolutions promulgated by the regional People's Congress and its Standing Committee; taken the economic construction as a key link; adhered to the four cardinal principles; and persisted in the principle of reform and opening to the outside world. Thanks to concerted efforts by more than 20 million people of various nationalities throughout the region, we have made notable achievements in building the socialist material and spiritual civilizations, and further consolidated and developed the political situation characterized by stability and unity.

Over the past 5 years, reform of the economic structure was carried out from rural and pastoral areas to urban areas, with the result that prominent progress was achieved in some fields and the vitality of economic development was notably enhanced.

Reform in rural and pastoral areas was ceaselessly deepened. Reform was first carried out in the agricultural field and was gradually expanded to the spheres of animal husbandry, forestry, fishery, water conservancy, and farm machinery. By the of 1987, more than 99 percent of the peasant household in rural areas throughout the region carried out various systems of contracted household responsibility with payment related to output. The time limit of land contracts was relatively stable. Socialized service was continuously developed. Deepening rural reform was expanded from production management to commodity exchange. Major farm and livestock products were either purchased according to contracts or sold through the market. Reform was raised from a relationship between collectives and peasants to one between the state and peasants. All this effectively promoted readjustment of the industrial structure and development of the commodity economy. Based on general implementation of the contracted responsibility system among pastoral areas, collectives sold their livestock to households and all livestock were owned and raised by private households. Meanwhile, by comprehensively implementing the "law on grasslands" and the "regulations on grassland management," the task of cutting and baling grasses and developing grassland was gradually assigned to households; the right to use grassland was conscientiously exercised; and to the combination of herdsmen, grasses, and livestock, and the integration of responsibility, right, and interests were ensured. In line with the principle by which individuals, collectives, and the state make concerted efforts to develop reforestation based on household management, the masses were assigned the task of reforesting barren hills, land, and beaches. Whoever developed reforestation would possess the right to use the land based on methods by which the right to use the land shall not be changed for a long period of time and can be inherited and transferred to others. Collectively-owned forests that were suitable to household management were developed by households based on contracts. The right to manage state-operated agricultural and livestock farms was delegated to the lower levels, with small accounting units divided. Agricultural and livestock farms run by families of staff and workers were developed. The contracted management responsibility system was ceaselessly perfected. Through reform in rural and pastoral areas, the vast number of peasants and herdsmen were greatly inspired with enthusiasm and development of agricultural, livestock, and forestry production was effectively promoted.

Reform in urban areas was carried out with the central link of revitalizing enterprises. We stated with streamlining administrative procedures and delegating powers to the lower levels and reasonably readjusted the relationship between the state, collectives, and individuals. As a result, enterprises and their staff and workers were inspired with enthusiasm. Except for a small number of enterprises, the right to manage enterprises run by the region were basically delegated to leagues, cities, banners, and counties. Second, we expanded enterprises'

decision-making powers, followed the plant director responsibility system, and reformed enterprises' management and distribution systems. Third, we reformed the management mechanism, explored separating the rights of ownership and management, carried out various management contracted responsibility systems, introduced competition to the contracted management system, and further ensured enterprises' responsibility, rights, and interests. By reforming the management and operation mechanisms, enterprises were notably revitalized.

While enlivening the microeconomy, we reformed the macroeconomic management system. Through reform in aspects of planning, finance, taxes, banking, material supply, commerce, foreign trade, and wages for labor, we emphatically overcame the defect of "over concentration and too rigid control," gradually reduced the mandatory plans that cover the production and circulation fields, and expanded the scope of guidance plans and market regulation, thus arousing the initiative of localities and enterprises and facilitating the development of a planned commodity economy. We have conducted initial reforms in the price system and the price management system, gradually readjusted prices in a planned manner, cultivated market mechanisms, and paid attention to performing the functions of the law of value. Wage reform accelerated the process of eliminating the "iron rice bowl," and the "common big pot." Strengthening the functions of economic supervision and management by industrial and commercial administrative and auditing departments played an important role in deepening reform. All of this provided favorable conditions for establishing a new operational mechanism for a planned commodity economy.

To comply with the new situation in reform, the focus of government work was further shifted to economic construction. Emphasis was placed on separating government functions from business management, changing government functions, delegating power to lower levels, and increasing the government's ability to regulate and control macroeconomic activities. We continued to improve the economic legal system, consultation on policymaking, and information work, thus making the government's policymaking more democratic and scientific.

Over the past five years, the economy increased in a sustained and stable manner, its ability for a sustained growth was enhanced, and the level of productive forces was notably raised.

The national economy was further developed and economic strength was continuously increased. In 1987, the regional GNP (calculated in terms of the constant price of the same year) reached 17.6 billion yuan, increasing by 56.3 percent over 1982, and averaging an annual growth of 9.3 percent; the national income (calculated in terms of the constant price of the same year) came to 14.36 billion yuan, increasing by 51.6 percent, and

averaging an annual growth of 8.7 percent; and the industrial and agricultural output value was 18.112 billion yuan, increasing by 54.7 percent, and averaging an annual growth of 9.1 percent. In this way, we basically attained the fighting goal of doubling the 1978 industrial and agricultural output value of the region by the year marking the 40th anniversary of the founding of the region, as put forth at the third session of the sixth regional people's congress.

Agriculture and animal husbandry developed in a sustained manner, and production conditions were improved. In 1987, regional agricultural output value reached 6.003 billion yuan, an increase of 31.8 percent over 1982, and an annual increase of 5.7 percent. By the end of 1987, the total power of farming and animal husbandry machines throughout the region had reached 6.14 million kilowatts, 52.7 percent over the 1982 year-end figure; the power consumption of rural and pastoral areas totalled 820 million kwh, an increase of 43.2 percent; the amount of chemical fertilizer applied had reached 923,000 tons, an 83.1-percent increase; the accumulated acreage of preserved artificial grass planting exceeded 1.4 million hectares, an increase of 550 percent; the year-end actual acreage of man-made pastureland came to 1.87 million hectares, and the accumulated acreage of improved natural grassland had reached more than 1 million hectares.

Agricultural production maintained a fairly high level over the past 5 years despite serious natural disasters that hit various localities for years in succession. In 1987, total grain output reached 6.07 billion kg, an all-time record, and a 14.5-percent increase over 1982; total beet output came to 1.678 billion kg, a 45.7-percent increase; and the output of oil-bearing crops was 540 million kg, a 10.2-percent increase. After the country's founding, there were 11 years when our annual grain output exceeded 5 billion kg. During all 5 years of the sixth regional people's congress, the annual grain output was more than 5 billion kg. This accumulated experiences for our region's grain production.

In animal husbandry production, during the animal husbandry fiscal year of 1987, we witnessed the sixth good year, since the founding of the PRC, during which the total number of livestock and draft animals exceeded 40 million. Owing to the influence of serious natural disasters, the total number of livestock dropped by 4.4 percent from the same period in 1982. The year 1982 was a year of record harvest in animal husbandry. Judging from the general developmental situation, although the total number of livestock fluctuated below the peak level over the last few years, no sharp fluctuations were seen after serious natural disasters as occurred in the past. The total number of livestock and draft animals of the fiscal year basically stabilized at 38 million head or so. Over the 10 years since the 3d Plenary Session of the 11th party Central Committee, economic results from animal husbandry gradually increased and the second 5 years witnessed even greater

increases than the first 5 years. Of this, the number of livestock slaughtered increased 31.8 percent, the total wool purchase increased 21.7 percent, and the total milk purchase increased 220 percent. This shows that animal husbandry has begun to show economic results.

Fairly good progress was achieved in the economy by forestry, fishery, and state-run agricultural and livestock farms. Over the last few years, the reforested area increased slightly and the reforestation quality and the tree survival and preservation rate rose remarkably. The intensive fish-raising water areas noticeably expanded and the output of aquatic products increased by a large margin. State agricultural and livestock farms witnessed remarkable changes in production and operational situations, ended 10 successive years of deficits, and unceasingly raised economic results.

Township enterprises suddenly came to the fore and their growth rate increased over the last few years. The total number of enterprises during 1987 reached about 260,000, with more than 900,000 personnel working, and their total output value reached 2.7 billion yuan, an increase of 17-fold, 4-fold, and 6-fold respectively over 1982. They earned 386 million yuan in profits and delivered 117 million yuan in taxes to the state. The vigorous development of township enterprises displayed a very important role in accelerating the readjustment of the production set up in rural and pastoral areas, promoting the development of the commodity economy, and increasing the income of peasants and herdsmen.

We have witnessed a steady increase in industrial and communications production and gradual improvement in the economic results. The 1987 total industrial output value reached 12.11 billion yuan, an increase of 69.3 percent over 1982, showing an annual increase of 11.1 percent. The output of some major industrial products, especially the output of energy, raw materials, and readily marketable light industrial and textile products, increased rapidly. Of this, the output of electricity, plate glass, woolen fabric, crude salt, and dairy products increased by more than 100 percent. Over the last few years, the rare-earth industry has developed rapidly, scientific research and applications were expanded, and all-time records were created in creating foreign exchange through exports, and in profits and taxes.

Rapid progress was made in communications and transport. Over the past 5 years, the total mileage of highway transport services increased by 5,852 km and the total mileage of up-to-standard highways increased by 9,093 km. We repaired and built 575 highway bridges, including the Baotou highway bridge and the Lamawan highway bridge spanning Huang He. Comparing 1987 with 1982, the highway passenger transport volume of the entire region increased 110 percent and the freight transport volume increased 170 percent. In railway transport, we paid attention to strengthening internal management, tapped potential, and increased passenger transport volume by 29.6 percent and freight transport

volume by 40.5 percent. Civil aviation undertakings developed rapidly. In 1987, the railway passenger transport volume increased 5.3 times over 1982. New achievements were made in post and telecommunications work. Total revenues from the region's postal and telecommunications business in 1987 increased by 130 percent over 1982. The development of transport and telecommunications played an important role in promoting the autonomous region's economic construction.

Industrial enterprises increased both production and income, and gradually improved their economic results. In 1987, local budgetary state industrial enterprises throughout the region created 1.203 billion yuan in profits and taxes, an 81.7-percent growth over 1982. The turnover period for fixed amount circulation of funds was shortened, the total deficits of enterprises declined, and the per capita productivity of state-owned industrial enterprises that exercised the independent accounting system rose by 35.6 percent. During the 5 years, the region completed 2,552 technical transformation projects, which involved 2.31 billion yuan in investment; developed more than 5,000 new products, of which more than 320 reached the advanced level of the country; and product quality was improved continuously, with 643 products being named as local good-quality products, 128 as ministry-level good-quality products, and 26 winning state gold and silver medals.

Purchases and marketing of the circulation sphere were brisk and markets further thrived. Through the series of reforms of the commodity circulation system, a multi-formed and multi-channel commodity circulation pattern composed of various measures and fewer intermediate links took shape step by step. Over the 5 years, commodities, materials, technology, labor services, information, and various other specialized markets were established one after another, and trade centers and trade depots developed rapidly. In the reform of supply and marketing cooperatives, we first restored their "three kinds of nature," and gradually turned them into economic entities. The number of service units exceeded 16,000. In 1987, the regional volume of commodity retail sales reached 10.54 billion yuan, a 100 percent increase over 1982; and the volume of domestic purchases reached 6.785 billion yuan, a 110 percent increase, of which the purchases of farm and sideline products came to 2.491 billion yuan, a 77.7 percent increase. Retail sales of other economic sectors also developed vigorously and transactions of urban and rural fairs, the number of individual commercial households, and the number of their employees rose by 270, 670, and 680 percent, respectively.

In capital construction, we guaranteed key projects and improved investment returns. In 1987, the capital construction investment made by state-owned units totalled 2.45 billion yuan, a 95 percent increase over 1982, and an annual increase of 14.3 percent. The investment was made chiefly in energy, communications and transportation, and raw material industries, and in developing

agriculture, animal husbandry, forestry, scientific and technological undertakings, and urban infrastructural facilities. Over the 5 years, investment in capital construction totalled 11.443 billion yuan, amounting to more than one-third of the 32.3 billion yuan of the capital construction investment made during the 40 years after the founding of the region. Of the total, the investment in productive projects accounted for 64.3 percent. Through reform in the construction industry and the capital construction management system, construction markets were established step by step; the fixed-quota capital construction investment system, open invitation of bids for contracted targets, and other responsibility systems were popularized; and construction quality and benefits were improved. Over these 5 years, the fixed asset commission rate reached 82.8 percent, the construction period was shortened by 2.5 percent on an average per year, and the good-quality construction rate reached 45 percent. We completed 7,073 construction projects, of which the first-phase project of the Tongliao Powerplant, the second-phase project of the Yuanbaoshan Powerplant, the expansion project of the Wulashan Powerplant, the southern open cut pits of the Huolinhe Coal Mine, the No. 1 primary mining area of the Yiminhe Coal Mine, the Chifeng No. 2 Woolen Mill, the Inner Mongolia color television center, and other large and medium-sized projects were put into operation one after another, and created fairly good economic results and social benefit.

Based on stable economic development, the financial and banking situation was greatly changed. Through ceaselessly deepening reform and delegating powers to the lower levels, the relationship in distribution of financial resources among different levels was readjusted and leagues, cities, banners, and counties were inspired with enthusiasm to manage their own financial affairs. In 1987 the region's revenue reached 1.943 billion yuan, an increase of 2.8 times over 1982. If incomparable factors are deducted, the average annual increase was about 13 percent. Since 1985, when the situation ended under which the region's revenue hovered below 1 billion yuan, this has been an important symbol for changing the region's economic situation and upgrading economic results. Expenditures in 1987 were 4.556 billion yuan, an increase of more than 1.2 times over 1982. If calculated in terms of comparable items, the average annual increase was 10.7 percent. With the subsidies provided by central authorities, the region continuously achieved a balance between revenues and expenditures. Expenditures played a positive role in supporting economic construction and the development of all undertakings and in improving the people's livelihood.

Financial undertakings were developed ceaselessly in the course of reform. The region gradually enhanced its capability of macroeconomic control. The number of banking organizations in the urban and rural areas increased. Markets for short-term interbank loans were set up, and lateral financial circulation was enhanced. By

the end of 1987, the region's inter-lending and inter-borrowing funds totaled 2.5 billion yuan. By the end of 1987, the banks' savings deposits reached 9.75 billion yuan, an increase of 6.1 billion yuan or 1.7 times over 1982 and an average annual increase of 21.7 percent; and loans of various types granted by banks reached 15.2 billion yuan, an increase of 9 billion yuan or 1.4 times and an average annual increase of 19.7 percent. The insurance business was restored, developed, and ceaselessly expanded. By 1987, insurance policies were purchased for 30 billion yuan worth of property. From 1983 to 1987, income from insurance premiums accumulated by 240 million yuan, and 97.94 million yuan were paid for indemnities.

Pushed and promoted by the economic structural reform, progress was made in the scientific, technological, and educational spheres and all social undertakings over the past 5 years. All this greatly promoted the development of the "two civilizations."

Through deeply implementing the principle under which "economic construction must depend on science and technology, and science and technology must gear to the demands of economic construction," we positively promoted the reform of the scientific and technological structure. Scientific research activities were managed according to various types of methods, such as the scientific funds system, the technological contract system, and the contracted system. Through developing lateral cooperation and providing technological service with payment to be linked to it, the commercialization of technological findings was promoted, and scientific research organizations enhanced their vitality and degree of economic independence. Scientific research organizations were encouraged to spread their scientific and technological findings among the grassroots. Meanwhile, science professionals and technicians were encouraged to move to the grassroots. By the end of 1987, about 3,000 science professionals and technicians throughout the region managed on a contracted basis or ran plants, mining industries, and town and township enterprises in the rural and pastoral areas. About 10,000 science professionals and technicians went deep to the grassroots and were engaged in various types of contracted technological development, technological training, and technological consultative services. New development was made in the cooperation between scientific research units, institutions of higher learning, and enterprises. Civilian-run scientific research organizations were set up continuously. Over the past 5 years, the region made 1,016 scientific research findings, 5 of which won state invention awards and scientific and technological progress awards, and 384 of which won regional scientific research finding awards and scientific and technological progress awards. A total of 305 scientific research findings applied for patents, but only 35 gained patent rights. Scientific and technological demonstration and scientific and technological training work were further enhanced. By the end of 1987, the region had 18 model scientific and technological banners and

counties, 106 model scientific and technological towns and townships (sumu), and more than 3,000 model scientific and technological villages (gacha). From 1985 to 1987, the region arranged 148 spark plan projects with a total investment of 92.39 million yuan. Of these projects, 18 were completed and better economic results were achieved.

We attached importance to developing and investing in intellectual resources and reformed the regular educational management system, thus facilitating educational development. In the past 5 years, education funds increased notably, amounting to 2.38 billion yuan, or an average annual growth of 15.4 percent, which is slightly higher than the growth rate of the local revenue of the corresponding period, thus further improving teaching conditions. By the end of 1987, the school attendance rate for school-age children throughout the region had exceeded 97 percent; and elementary education had become basically universal in 66 banners, counties, cities, and districts. Governments and education departments at various levels conscientiously adopted effective measures for running schools, such as building new ones and expansion and joint operation, to greatly change the unitary structure of secondary education. Vocational and technical education developed rapidly, and enrollment in the various types of vocational schools was 43 percent of the total enrollment in schools at the senior middle-school level. We continued to develop education for minority nationalities on a priority basis, increased its input, restored and newly built a number of primary and middle schools and kindergartens for minority nationalities, opened college preparatory courses for them, and increased the number of classes taught in the Mongolian language in institutes of higher learning. Higher education developed steadily after being readjusted, reformed, and strengthened. We expanded the autonomy of schools, popularized the school president responsibility system, reformed the enrollment and job distribution systems, implemented the scholarship system on a trial basis, gradually readjusted undergraduate and postgraduate studies and the range of disciplines, and reformed the curricula and teaching methods, thus improving the quality of education; increasing the schools' adaptability to economic construction; and beginning the establishment of the new system which combines teaching, scientific research, and social practice. We continued to carry out the policy on intellectuals, further improved the contingent of teachers, and raised their political and ideological levels and professional competence. Substantial progress was achieved in adult education, preschool education, specialized education, education aimed at eliminating illiteracy, and post-literacy education.

In the process of reform, new achievements were scored in culture, art, medical work and public health, family planning, sports, press, publication, radio, film, television, the Mongolian spoken and written language, foreign affairs, Overseas Chinese affairs, tourism, and social welfare. This played a positive role in raising the

ideological and cultural levels of the people of various nationalities throughout the region and in building the socialist spiritual civilization. In family planning, in particular, we implemented the policy in a stable manner, and the natural population growth was lower than the national average. The sports front achieved outstanding results. In the 5 years, athletes of our region won 12 gold medals at international competition and 233 gold medals at domestic competition. At the sixth national games, the our region's fine athletes won 14 gold medals, ranking eighth in terms of the number of gold medals, and were named as a delegation outstanding in the spiritual civilization.

In the past 5 years, we continuously expanded the opening to the outside world, strived to develop lateral cooperation, and expedited the pace of changing the national economy into an export-oriented one.

Foreign trade developed very rapidly. In the 5 years, the region earned more than \$620 million in foreign exchange through exports, for an average annual increase of 25.8 percent. In 1987 a good situation emerged that had rarely been seen in the past. The total volume of exports reached \$227 million, 220 percent more than in 1982. Border barter trade with the Soviet Union and Mongolia grew rapidly. In the 5 years, the accumulated import and export volume came to 180 million Swiss francs (equivalent to about 477 million yuan Renminbi), of which 1987's import and export volume was 75.4 million Swiss francs (equivalent to about 200 million yuan Renmibi), 27 times greater than in 1983.

Fairly good results were achieved in foreign capital utilization. In the 5 years, the region carried out 72 foreign capital import and utilization projects involving more than \$120 million and 72 spot exchange technology import projects using \$56.61 million in foreign exchange, thus accelerating technical transformation, intensifying product processing, and increasing the quantity of export goods for foreign exchange earning.

International technical and academic exchanges increased continuously. Over the past 5 years, the region has dispatched 225 students to foreign countries for further study and has invited or received 460 foreign experts who have carried out academic exchanges or offered information and technical guidance in the region.

Lateral economic cooperation and technical coordination with units in the country developed more rapidly. Over the past 5 years, the region has introduced 600 million yuan of outside funds and 12,000 technical personnel of various kinds. It has signed contracts with outside units on the more than 3,400 items of economic cooperation and technical coordination, under which materials and funds brought in or taken out were worth

800 million yuan. The region has established a large number of economic associations with outside regions as well as with industries and trades and units of various ownerships.

On the basis of developing the economy, the income of both urban and rural people has increased over the past 5 years and the people's material and cultural lives have been further improved.

Along with economic development, the number of employed laborers increased, as did in the average income for the vast number of people. The region arranged jobs for 925,500 urban jobless youths from 1983 to 1987. The rate of youths who were waiting for jobs decreased from 9.1 percent in 1982 to 3.5 percent in 1987. According to statistics compiled with the sample investigation data of 1987, the living income of urban people was 809 yuan per capita, an 84.3-percent increase over the 1982 figure; net income per peasant was 389 yuan, a 42.4-percent increase over the 1982 figure; and net income per herdsman was 662 yuan, a 67.3-percent increase over the 1982 figure. By excluding the factor of price hikes, increases in these three fields was 39.3 percent, 13.3 percent, and 32.6 percent, respectively. On the basis of increased income, the consumption structure of both urban and rural people achieved new changes. They scored an increase not only in the quantity of food, clothing, houses, and daily goods, but also in their quality.

The region's bank deposits for both urban and rural residents totalled 5.082 billion yuan at the end of 1987, a 3.1-fold increase over the 1982 figure. Of this sum, urban residents' deposits totalled 3.987 billion yuan, a 3.9-fold increase over the 1982 figure, and peasant and herdsmen's deposits totalled 1.185 billion yuan, a 1.7-fold increase over the 1982 figure.

The work of urban construction, housing, environmental protection, and comprehensive public security consolidation achieved new development. Over the past 5 years, the region has built 18 million square meters of new urban houses and showed an increase in the per-capita acreage.

During 1987, Inner Mongolia Autonomous Region celebrated the 40th anniversary of its founding and emphatically grasped the four practical deeds of helping the poor, controlling endemic diseases, conducting education, and dealing with the problem of water supplies for both human and animals. In 1986 and 1987 alone, the region spent more than 300 million yuan on carrying out these practical deeds. It helped 400,000 poor households develop production, of which 210,000 basically eliminated the problem of dressing warmly and eating their fill. Some 95.7 percent of 883 areas in 68 banners and counties throughout the region where goiters are prevalent reached the standard set forth by the state on bringing this disease under control. In these areas, 1.42 million people were able to drink low-fluoride water,

which was improved under the preventive program of water fluoridation. The overwhelming majority of middle and primary schools throughout the region had achieved that every school had no dangerous buildings and had sufficient classrooms, desks, and benches for students; and 80 key schools of border towns became publicly owned and were equipped with student dormitories and assistant scholarships. On the basis of establishing such town-run key schools, the region further implemented the construction project of building 350 inland town-run central schools with the system mentioned above. The water shortage situation in the old revolutionary bases and minority areas improved somewhat. More than 1.5 million residents in 72 banners, counties, and towns were able to enjoy pipe water. Such practical deeds done by the region had a practical effect and exerted a good influence among the masses.

During the past 5 years, we made efforts to strengthen the building of the spiritual civilization, promoted the renewal of the people's ideology and concept, and further consolidated and developed the stable and united political situation.

—Reform promoted not only economic development and other undertakings but also profound changes in the people's ideology, concepts, mental state, and way of life. During the last few years, we proceeded from reality and adopted various methods to conduct education on upholding the four cardinal principles among the broad masses of cadres and the people of various nationalities, and enabled the people to more consciously uphold the socialist orientation and adhere to the principle of reform, opening up, and economic invigoration. The new reform ideology and concepts won great support from the cadres and the masses. Their sense of reform became stronger, and their reform conviction became increasingly firm.

—New achievements were made in building the socialist spiritual civilization. We closely combined reform with construction; strengthened and improved ideological and political work; prominently grasped the education on ideals, discipline, and professional ethics; and actively conducted Army-people and police-people joint activities to build a spiritual civilization. A great number of advanced models with the distinctive features of our times have emerged. We further promoted the socialist democracy; improved the socialist legal system; conducted region-wide propaganda and education to popularize legal knowledge; and formed a habit of studying, applying, and observing the law.

—We strengthened great unity among the people of various nationalities and further consolidated and developed new-type socialist national relations which stress quality, unity, mutual help, and friendship. During the last few years, particularly during 1987 when we celebrated the 40th founding anniversary of the autonomous region, the whole region, from the higher to the lower

levels, conscientiously summed up experience in intensifying national unity, studied the Marxist national theory and the party's policies toward nationalities in line with reality, implemented the "law on regional national autonomy," extensively conducted "National Unity Month" activities, actively publicized and commended advanced models on all fronts who did good job in promoting national unity, and continued to strengthen the great unity among the people of various nationalities. During the process of the modernization construction, the people of various nationalities were in perfect harmony, struggled in unity, and followed the path of common development and prosperity.

—Through dealing strict blows to serious criminal offenses and economic crimes and activities, we comprehensively improved social security and succeeded in steadily improving social order and habits.

—The PLA units stationed in Inner Mongolia made new contributions to defending the border areas of the motherland; safeguarding tranquillity on the border areas; supporting local construction; dealing with emergencies and sending relief; reforming themselves; and building themselves into a revolutionary, modernized, and regularized army.

The 5 years of remarkable achievements were the result of efforts by the people in the region to unceasingly emancipate their thinking, renew concepts, be keen on reform, and struggle in unity under the party's leadership. Now, on behalf of the regional People's Government, let me extend high respect and heartfelt thanks to the workers, peasants, herdsmen, intellectuals, cadres, PLA units, armed police forces, public security cadres and policemen, the militia, various democratic parties, nonparty democratic personages and all patriotic figures, compatriots from Hong Kong, Macao, and Taiwan, Overseas Chinese, and foreign friends who contributed to Inner Mongolia's four modernizations drive and showed great concern and support to our work.

Fellow deputies, although the region made great achievements in its work in the past 5 years, we must clearly note where we lagged behind. In principal, the speed of economic development was rather slow and economic results were low. In the past 5 years, the average annual growth rate of the region's GNP and national income was lower than the national rate by 1.8 percent and 2 percent, respectively. In 1987 the labor productivity of state-owned independent accounting industrial enterprises across the region was 40.4-percent lower than the national average, and the profits and taxes handed over by the region's industrial enterprises were 50-percent lower than the national average. The region retrogressed and went backward in the whole country in terms of its total grain output and the number of large and small animals in stock at year-end. When compared with advanced provinces and regions, we lagged even further behind. So, we must enhance the sense of crisis and

urgency. There were both historical and objective reasons as well as subjective reasons for our lagging behind. Speaking subjectively, we know that there were mistakes and shortcomings in our work. First, we failed to emancipate our minds, had no strong awareness of reform and opening to the outside world, had no broad train of thought, and failed to accelerate the pace of reform and opening to the outside world. In particular, we were not brave enough to conduct reform and did not have a good spirit for doing pioneering work and blazing new trails. Governments at various levels were still concentrated with excessive powers, and departments still created some administrative interferences. The grassroots and enterprises were not vitalized enough. We did not have strong foresight regarding the new situation and new problems that would certainly arise in the course of replacing old systems with the new; we failed to work out sufficient methods to solve contradictions and conduct macroeconomic control; and, in particular, we failed to apply sufficient economic methods. All this indicated that the transformation of government functions lagged behind the situation. Second, we failed to clearly understand the strategic issue of persistently regarding agriculture as the foundation of the national economy, and we particularly neglected the principle of "never ignoring grain production." The input in agriculture and animal husbandry was reduced over the past few years, thus, the reserve strength for the development of agriculture and animal husbandry was insufficient. Practice has shown that we must not only rely on policies and science but also ceaselessly increase material input in order to ensure the stable development of agriculture and animal husbandry. Third, progress was slow in reforming government organs. The situation of overstaffed organizations, wrangling with each other, and low work efficiency basically was not changed. The unhealthy practices of bureaucracy, extravagance, waste, and abusing one's power for private gains still existed. There were often cases of some cadres violating law and discipline. We must pay great attention to these problems. In the course of deepening economic and political structural reform, we must continuously summarize experiences and lessons and positively adopt effective measures for solving these problems.

A prominent problem in the current economic and social life is excessive price hikes. In 1987 the region's retail sale price index rose by 8.1 percent, thus affecting somewhat the improvement of the people's livelihood. The standard of living for some urban dwellers was lowered. All this resulted from our failure to strictly conduct macroeconomic control and adopt effective measures. Meanwhile, we must understand that the reform of the unreasonable pricing system will certainly bring about overall price hikes. This is an essential result of the transformation from a product economy to a commodity economy. If distorted prices are not balanced, there will be no rapid commodity economic development.

It needs to be explained that, from 1983 to 1987, the region's retail sale price index rose by 29.5 percent, and

the urban dwellers' income for living expenses increased by 84.3 percent per capital. If factors for price hikes are deducted, the real income for living expenses rose by 39.3 percent. Viewing the overall situation, we know that the majority of the urban dwellers' real income still increased. In order to control the rate of price hikes and to improve the real standard of living for the majority of people, according to the guidelines of the overall necessary measures for controlling price hikes set forth by the State Council, on the one hand we should intensify market and price management, maintain relative stability in overall price levels, and strive to ensure that price hikes will not surpass the bearing capacity of all fronts. On the other hand the regional government is going to adopt measures to positively develop production, upgrade the supply capacity, and appropriately increase the subsidies for urban staff and workers.

2. We should correctly understand our region's situation and further clarify the strategic guiding ideology for its economic and social development.

Based on the economic development strategy determined at the 13th party congress, our region's general goal is to increase the 1980 GNP by 300 percent or more by the end of this century and bring Inner Mongolia's economic level to a new stage. To do this successfully, we should conscientiously analyze and correctly understand the situation of the region, proceed from the reality of the region to correctly understand and comprehensively implement the principle of "emphasizing forestry and animal husbandry while developing diverse undertakings," and define the strategic guiding ideology for our economic and social development.

Located in the northern frontier of the motherland, our region is an area where regional national autonomy is implemented and is a vast area that has abundant surface and underground resources, tremendous potential for economic development, and a fairly superior geographical position for foreign economic ties. However, there are also many factors that restrict economic development, primarily poor economic foundation, weak economic strength, and a lack of funds, technology, and talented people. Although our region's economic construction has developed by leaps and bounds over the past 40 years, particularly since the 3d plenary session of the 11th Party Central Committee, our commodity economy remains very underdeveloped and productive forces are backward. Compared with advanced provinces and regions, we are still at a rather low level in the initial stage of socialism. If we do not strive with all-out efforts to catch up, the difference between our province and advanced provinces and regions will continue to widen. Faced with such a situation and a new situation in which all areas of the country are carrying out reform, opening up, and vying for greater development, if we are to achieve rapid social and economic development we should further emancipate our minds, update our ideas, make the best use of our advantages, adopt the strategy of converting resources, muster efforts for development,

and start with a lower starting point to accelerate development. Our guiding ideology can be summarized as "unity, construction, reform, and opening up." The focuses of economic construction are further strengthening energy, communications, raw material and other basic industries, and light and textile industries; giving prominence to agriculture and animal husbandry, which constitute a foundation, and greatly developing township enterprises; developing science, technology, and education more rapidly and striving to raise the scientific and cultural levels of the people of various nationalities.

In line with the aforementioned guiding ideology, we should bravely explore our future economic construction and blaze a road compatible with the development of the situation in our region.

Proceeding from our region's natural characteristics, we should firmly foster the idea of carrying out active development; basing ourselves on combating disasters; suiting measures to local conditions; and making an organic combination in our endeavor to develop agriculture, animal husbandry, and forestry. Our region has been provided with favorable conditions for developing agricultural, animal husbandry, and forestry production. Major factors that restrict development are a lack of rainfall, particularly in the central and western parts of the region which are hit by drought in 9 out of 10 years, and the cold climate in the eastern and northern parts of the region, where the period of withered grass is long and snow disasters are frequent. Grassland deteriorates and becomes sandy, arable land becomes more saline-alkali and nonorganic, and the cycle of serious drought and snow becomes shorter. Natural disasters occur every year; they differ only in scope and the extent of damage caused. Our region's agriculture and animal husbandry are still subject to the mercy of heaven in their development. This requires that we face up to factors that are not favorable to the development of agriculture and animal husbandry, foster the idea of preventing and combating disasters on a long-term basis, increase comprehensive input, and take the road of development through construction.

In agricultural production, we should pay attention to the "three integrations." First, we should integrate organic agriculture with inorganic agriculture so that we can not only gain immediate profits but also seek long-term benefits. Second, we should integrate irrigation agriculture with dry-land agriculture and grasp not only key projects but also ordinary projects. Third, we should integrate the development of grain production with that of diversified undertakings and attach importance to not only ensuring a stable increase in grain output but also rationalizing the structure of the cropping industry. In livestock production, we should persist in three principles. The first principle is to pay equal attention to quantity and quality. In this regard, we should emphasize quality in particular in order to gradually obtain benefits from animal husbandry. The second principle is

to combine grassland protection with grassland construction. We should focus our efforts on solving the "food and shelter" problems of domestic animals and gradually gaining the initiative in preventing disasters. The third principle is to pay equal attention to developing animal husbandry in pastoral areas; developing animal husbandry in agricultural, semi-agricultural, and semi-pastoral areas; and developing herbivorous and omnivorous animals. We should combine agriculture with animal husbandry in order to gradually develop towards intensive farming. In forest production, we should emphasize the "three integrations." First, we should integrate the planting of bushes with that of arbors and should plant trees in line with land conditions. Second, we should integrate tree felling with tree cultivation and ensure utilization with planting. Third, we should integrate ecological efficiency with economic efficiency and strive to gain benefits in course of prevention. Natural conditions differ in 1,001 ways in our region. We must develop agriculture, forestry, and animal husbandry in line with specific local conditions, and should promote the comprehensive development of diversified undertakings. In natural ecology, agriculture, animal husbandry, and forestry form an organic whole, and each depends on and promotes the other and is mutually conditional. In developing agriculture, animal husbandry, and forestry, we should not lay undue emphasis on any one of them. We must develop agriculture, animal husbandry, and forestry in a coordinated manner and plant trees and grass in order to effect a benign circle and take the road of high-efficiency agriculture, animal husbandry, and forestry.

Proceeding from the characteristics of our region's natural resources, in accelerating economic development, we should foster the ideas of giving prominence to superior industries, deepening the processing industry, and making funds circulate rapidly. Our region has abundant and numerous natural resources which are spread over a vast expanse of land. In developing and utilizing natural resources, our region currently faces three conspicuous problems: First, "excessive storage" and "slow exploitation"; second, the low processing level, the few varieties, and the poor quality; and third, the low technological and managerial level, the excessive input, and the poor efficiency. In addition, fund shortages and poor transport facilities have prevented us from changing advantages in natural resources into advantages in the commodity economy.

To rapidly change this situation, in developing natural resources we should pay attention to comprehensively utilizing, economizing on, and protecting natural resources in order to promote the regeneration of natural resources. In the distributing productive forces we should attach importance to the development of natural resources and the construction of projects concerning energy, metallurgical, building materials, heavy, and chemical industries and the processing of agricultural, livestock, and forest products. In addition to the several key projects undertaken by the state, the region should

vigorously develop medium-sized and small enterprises with diverse layers, forms, and sectors; make full use of social funds and talents; form a pattern under which funds are circulated through diverse channels and talents conduct operations in diverse posts; and strive to accelerate the development of the social productive forces. We would rather run fewer ordinary enterprises than concentrate our funds on promoting the overall development of the high energy-consumption and raw materials industries and other processing industries, with coal and electrical industries as the leader. We should strive to add our value through diverse layers and take the road of optimum organization and benign circle at a relatively high level.

By proceeding from the region's geographical features, we should foster the thinking of boldly delegating power to the grass-roots levels and opening the region to the outside world in all directions in carrying out or developing the economic relationship with outside places. Our region is endowed with vast territory, and the region's leagues, cities, banners, and counties are relatively scattered. Therefore, their natural resource strengths and economic situations are not totally alike. The work of urging various localities to make the same steps in developing the economy is not practical. It is not good and is impossible for regional authorities to monopolize the work of various localities. The region has designated Hulun Buir League and the city of Wuhai as areas which will take up the pilot work of conducting reforms in the economic systems and has decided to give them more preferential treatment in policies and delegate much power to them in the management of funds and material supplies and of construction items. Our plan is to regard the eastern and western areas as experimental regions which should make a breakthrough in conducting reforms, to regard border areas as a ring opening to the outside world, and to further delegate power to the grass-roots levels. Special attention should be paid to developing the economies of banners and counties; under the guidance of the region's macroeconomic plan, to upgrading the capability of various localities in developing the economy independently; and to urging various localities to boldly create something new in conducting reforms and opening to the outside world.

Although our region is located in a remote area, it has a favorable geographical condition in which it is connected to two foreign countries; it contains the three parts of Northwest China, North China, and Northeast China; it has eight provinces as its neighbors; and it is near the municipalities of Beijing and Tianjin. Therefore, it can establish relationships with various localities in all directions. In line with the trend of the readjusting international economic structure, the state has decided the strategy of developing the economy along coastal areas, which has made ways for the inland areas in a number of raw material and commodity markets. Through thinking a lot about things, some advanced regions will seek a new direction of investment and

technical cooperation on a larger scale within the country. We should seize the current opportunities of readjusting the international and domestic economic structures in a timely manner so that we can integrate the region's strategy of developing the border economy with that of developing the coastal economy and upgrade our capability of adapting to the changes and of meeting the need of readjustment. On the one hand, we should do a good job of giving full play to our superiority in natural resources and policies to provide as much of the energy resources, raw materials, and semi-finished and primary products as possible for the coastal developed areas so that they will be able to carry out deep processing and sell their fine commodities in foreign markets. On the other hand, we should also strive to be major producers by actively developing our superior industries and selling our products with local characteristics directly to foreign markets. Efforts should be made to make full use of the two inland ports of Manzhouli and Erlian and to actively develop border trade so that we can sell our commodities to international markets. We also may establish transregional and transnational markets for products such as wool, leather, animals, and rare earth in order to enhance the region's economic attraction.

In accelerating the pace of opening to the outside world and establishing lateral economic cooperation, efforts should be made to foster the materialist dialectical concept of obtaining gain and suffering losses, to eliminate the idea of consistently maintaining accumulated funds without adequately using them and of being eager for quick success and instant benefit, and to master the method of using outside funds to develop production and using outside advanced technologies to improve product quality. We should enhance the construction of various infrastructures; create a better climate for investment; and make use of the region's rich and cheap natural resources and labor force to attract both foreign and domestic funds, technologies, and talented personnel so as to vigorously upgrade the region's standard in development and to enhance the region's capability in self-development.

By proceeding from the region's characteristics, efforts should be made to firmly foster the thinking of continuously strengthening unity among various nationalities and accelerating the pace of developing the economy and culture. Inner Mongolia is a region where people of various nationalities, such as Han, Mongolia, Daur, Ewenki, Manchu, Hui, and Korean, live in a compact community and have lived here for a long time. They have commonly created their material civilization and splendid culture. Since the founding of the autonomous region, the people of various nationalities have scored marked achievements in building socialism by uniting as one and waging struggle, have made due contributions to the state, and have won the glorious title of "model autonomous region." At difficult or crucial moments, cadres and the masses of various nationalities have safeguarded the unification of the motherland and social stability by sharing weal and woe and displaying their

high patriotism and the spirit of mutual trust. Unity among various nationalities has become tighter through the repeatedly severe tests. Practice has proved that continuously enhancing national unity is the fundamental guarantee of economic development and social stability throughout the region. Therefore, unity represents a foundation and a situation as a whole. Under the new situation, we should treasure even more and steadily enhance the unity among various nationalities and social circles and make concerted efforts to build the socialist modernization.

In the final analysis, the prosperity and progress of a nation and the consolidation and strengthening of national unity depend on the improvement of economic and cultural levels. We should note that our region's economy and culture are rather backward, and the level of productive forces of different nationalities and in different areas varies in the process of the commodity economic development. Based on the stipulations of the "Regional National Autonomy Law," we should formulate more flexible local regulations and policies [text unclear] characteristics of cities and localities; successfully, flexibly, and adequately exercise the power and implement the policies granted by the central authorities; facilitate the development of productive forces; and raise the overall quality of [word unclear]. Regarding areas where minority nationalities live in compact communities, the autonomous banners, and the nationality townships, in particular, we should adopt more preferential policies to support their economic and cultural development so as to achieve common prosperity for the various nationalities.

In view of our region's currently undeveloped commodity economy, we should further emancipate our minds; enhance the sense of respect for the law of value, market, and competition; more rapidly make the natural economy into a commodity economy, the closed economy into an open economy, and the extensive economy into an intensive economy; and accelerate the revitalization of Inner Mongolia.

3. Opinions on the major work tasks [word unclear]

The next 5 years mark a crucial period for realizing the second-step fighting goal of the economic development strategy defined at the 13th party congress. Based on our reality, our region has put forward three short-range fighting goals for its economic development: First, while making efforts to develop production, we should gradually make the region's per-capita GNP reach the medium level or above of the country. Second, while developing agriculture, forestry, animal husbandry and industry in a coordinated manner, we should gradually achieve self-sufficiency in grain supply. Third, while improving economic results continuously, we should gradually raise the region's rate of financial self-reliance and strive to achieve financial independence. Through hard work, we should increase the region's GNP to 24.7 billion yuan by the year 1992, an average annual increase of 7 percent;

its revenue to 3.09 billion yuan, an annual increase of 10 percent; its financial self-reliance rate to 62 percent; and its grain output to 7.25 billion kg, an annual increase of 3.4 percent. We have left some margin in fixing these targets and should strive to overfulfill them through hard work.

To realize the aforementioned fighting goals, the autonomous regional People's Government should strive to perform the following work successfully in the next 5 years:

A. It should put reform at the center of all our undertakings and continuously invigorate economic development.

Because our tasks are arduous and heavy, we should put reform at the center of all our undertakings. The reform goal for the next 5 years is to follow the guidelines of the 13th party congress to further deepen reform, solve the unavoreblems arising in reform in a resolute and prudent manner, and gradually establish a new order that is compatible with the socialist commodity economy. In the guiding principle for reform, currently we should particularly stress the creation of the new and have the courage to free ourselves from the shackles of outmoded ideas and "convention." We should have the courage and boldness of vision to flexibly implement regulations that are incompatible with reality and detrimental to the development of productive forces; adopt measures which suit local conditions and which are not explicitly prohibited by the state; flexibly implement methods that are conducive to invigorating the commodity economy; and allow some localities to have more decisionmaking power to conduct supporting reforms ahead of others.

Deepening enterprise reform is the focus of economic structural reform. At present, we should conscientiously study and implement the "enterprise law" and introduce the competition mechanism into contracts in line with the principle of separating the "two powers" in order to invigorate enterprises. Quite a large number of enterprises in our region have not instituted the contracted managerial responsibility system; and even among those which have implemented the system, few have truly introduced the competition mechanism. If quality can be ensured, we should accelerate the all-round reform. Based on the nature of industries, the scope of enterprises, and the characteristics of technology, we may adopt different forms of the contract system, the stockholding system, and other managerial responsibility systems. Large and medium-sized enterprises which can institute the contracted management system should be managed under contract; small enterprises may be contracted out or leased or may be sold to collectives or individuals; and small state commercial enterprises should have their ownership changed or be leased or transferred, and those suffering deficits for a long time may also be openly auctioned off. Enterprise production equipment and facilities that are left completely or partly unused may also be leased or sold. In instituting the

contract system, enterprises should introduce the mechanisms of competition, risk-taking, and annexation. They may "invite open bids and employ directors (managers) accordingly" so that people who truly have technical knowledge and are good at management can have the opportunity to develop their talents. Within enterprises, we should also introduce contracts and competition and turn the responsibility, power, and profit of directors (managers) into the will of the entire staff and all the workers. We should actively popularize the all-worker contract system, strengthen democratic management, and give full play to the role of staff and workers as masters of enterprises. Supporting reforms in the fields of personnel, labor, and wage systems within enterprises should also be made successful. We should popularize the cadre employment system and the system of optimum labor combination of workers so as to invigorate the worker recruitment system; widely apply the various measures to link total payroll to economic performance and invigorate the distribution within enterprises so that the income of staff and workers is based on the economic performance of enterprises and the contributions of individuals; and allow enterprises to collect interest according to capital and share dividends according to stocks. Enterprises should also bear compensation for risk-taking. Enterprise directors (managers) should be held responsible for the attainment of certain objectives during their tenure and be subject to supervision through auditing at the expiration of their term. Enterprises should establish not only self-stimulation mechanisms but also self-regulation mechanisms.

The establishment of the socialist market system is not only a necessary social condition for changing the operational mechanisms of enterprises but also a bridge through which governments exercise indirect management. We should build an open market network and gradually achieve the goal that "the state regulates the market and the market guides enterprises." We should particularly exert efforts to ensure the coordination between urban and rural areas, between industrial and commercial enterprises, and between the units within and outside enterprises and should gradually circulate the major elements for production in markets and commercialize them. After the experiences of pilot units are summarized, the region should systematically relax the planned management of the means of production, apply the method of "fixing unified prices and returning the price differential" to some products, and replace allocation in kind with compensation in the form of value. In the reform of the banking system, we should further develop an open, multi-purpose, and inter-departmental money-lending market led by the People's Bank and unclog the channel for banks and areas to circulate money. With the approval of the People's Bank, we should allow some key construction projects and key enterprises to issue long- and medium-term securities in order to raise money from society and should increase the proportion of funds collected directly by enterprises. After experimentation has been carried out, we should

actively open up stock markets where stocks are transferred, purchased, and sold. We should develop a foreign exchange regulating business and establish a regional foreign exchange regulating center. We should actively raise funds from all quarters of society and issue loans to the best projects in order to promote stable economic growth and support foreign exchange earning through exports. We should also actively develop the markets for science and technology and labor service to facilitate the rational flow of personnel and technology.

Under the arrangement made by the central authorities, we should accelerate the pace of conducting reforms in a coordinated way in the fields of planning, investment, finance, commerce, and foreign trade. In conducting reform of the planning systems, emphasis should be placed on gradually reducing mandatory planning targets, delegating power to grass-roots levels, expanding the scale of guiding plans, and establishing macro-readjustment and control systems with indirect control as a center. In conducting reform of investment systems, emphasis should be placed on establishing the system of capital construction funds, setting up investment companies, enforcing public bidding for construction items and the competitive bidding mechanism, and investing money in beneficial items. In conducting reform of commercial systems, emphasis should be placed on promoting the establishment and development of commodity circulation systems with multiple components and channels, expanding purchases and sales to enliven markets and develop the commodity economy, joining in market competition to enliven commodity circulation and balance commodity prices, and ensuring the supply of the necessities of life for the vast number of people. In conducting reform of the system of supply and marketing cooperatives, emphasis should be placed on enabling supply and marketing cooperatives to divorce themselves from the alignment of government administration, to become an economic entity, and to truly become the cooperative commercial organizations of peasants and herdsman. In conducting reform of foreign trade systems, emphasis should be placed on overall enforcement of the responsibility system and the earnest implementation of the principle of "being responsible for one's profits and losses, relaxing restrictions on business management, integrating industry with trade, enforcing the system of acting as agent, and adopting joint measures in foreign trade" in order to promote the development of foreign trade. In conducting reform of housing systems, under the state unified guidance and by bearing in mind the region's actual situation, we should carry out comprehensively the drive to conduct reform within 3 or 5 years. Efforts should be made to establish and improve the various kinds of social insurance systems, to conduct reform of the systems of labor work and social welfare, and to establish social guarantee systems that are suitable to the region's characteristics.

Reform is a complicated and systematic project which involves various social circles. To achieve smooth progress in conducting reform, we should not only unsparingly and boldly pioneer a road of advance and be

resolute in a timely manner, but also should deeply carry out investigation and study, consider fully the endurance of various circles, formulate feasible plans that suit local conditions, and actively and adequately fulfill these plans.

B. We should ensure a stable increase in the production of agriculture, animal husbandry, and forestry and vigorously develop the commodity economy both in rural and pastoral areas.

Agriculture is the foundation of the national economy, and grain is the foundation of the foundation. It is strategically important that we upgrade grain production as soon as possible to improve the livelihood of both urban and rural people, to promote industrial production, to stabilize the development of animal husbandry, and to relieve local financial burdens. To realize basic self-sufficiency in grain throughout the region, a good job should be emphatically done in grasping the following measures of production increase: First, a good job should be done in making production arrangements in line with local conditions. Areas southeast of Daxinganling and on the right bank of the Nen Jiang, where there are rich water sources and where the soil quality is good, should do a good job in draining waterlogged fields and further upgrade the standard of intensive farming. The irrigation areas on the south banks of the Xi Liao He and the Huang He, where there is rich underground water and flat land, should actively develop irrigation by sinking wells, pay attention to using surface water to make up for the shortage of underground water, and further upgrade their yield per mu. The irrigation areas of Hetao and Tumochuan should do a good job in building water conservancy facilities in a coordinated manner and accelerating the pace of improving saline-alkali land. The dry, hilly areas of central and western Inner Mongolia should vigorously popularize the technology of increasing output on dry land and develop small paddy. Localities across the region should pay attention to adequately readjusting the structure of grain seeds and should make reasonable arrangements for the proportion of grain and cash crop production. Second, efforts should be made to increase input and enhance the development of reserve strength. Our plan is to show a 200,000-hectare increase in new irrigation farmland throughout the region within the 5 years so as to strive to ensure that the acreage of irrigated farmland reaches 1.33 million hectares, that the applied volume of fertilizer reaches 1.6 million standard tons, and that the acreage of farmland on which plastic sheeting is used in farming reaches 180,000 hectares. With regard to increasing agricultural input, in addition to appropriating some funds from their increased annual revenue, the autonomous regional authorities and various localities should depend primarily on what the masses have accumulated. In using state investment, particularly the newly increased investment in building marketable grain bases, we should release the funds by selecting beneficial projects or enforcing public bidding, enforce the link between the release of funds and the production of grain,

and utilize the funds with compensation. Efforts should be made to establish the system of accumulating the manpower of the masses—encouraging every agricultural worker across the region to spend 20-30 work days on the capital construction of irrigation and water conservancy—and to pay attention to practical efficiency. Third, we should vigorously popularize and apply technologies to increase production and give full play to the role of science and technology in increasing production. In the coming 5 years, we should emphatically grasp the exemplary cultivation of grain crops, plastic film coverage of corn, improved varieties of major crops, and measures to comprehensively increase the output of dry land so that we can further raise the level of scientific farming. Fourth, we should deepen rural reform and perfect the dual-layer managerial responsibility system. In the past, all localities set different time limits for the contracting period of land utilization; now, it is announced that the contracting period for land utilization will remain unchanged for a long time. We should introduce the system of fixing a grade for land through appraisals and encourage the masses to increase their investment in land. For those localities whose division of farmland is too scattered and is harmful to production and construction, appropriate adaptations should be made on the basis of education, guidance, and voluntary participation of the masses in order to help concentrate farmland on competent farmers and encourage large grain production households. Those small water conservancy facilities which have not yet been contracted out should be contracted out, leased, or sold as quickly as possible. We should pay attention to building comprehensive agricultural service stations, by shifting the construction emphasis from leagues and cities to banners and counties, shifting from being solely run by the state to being run by the local people with state subsidies, and shifting from only rendering technological service to rendering comprehensive technological and managerial services.

In developing animal husbandry, we should focus on grassland construction, strive to meet market demands, depend on scientific and technological progress, [text unclear] (?material) input, develop household management at an appropriate scale, and build highly efficient and commercialized animal husbandry. We should further improve the responsibility system in livestock production, appraise and fix the grade of grasslands contracted to the masses, and establish the system of conducting regular inspections. As for the construction achievements scored by the masses on the contracted grasslands, their ownership and their right of inheritance should be protected by the state according to law in order to strengthen the protection, construction, and utilization of grasslands. Peasants and herdsmen should be actively guided to develop household-based pastures, specialized livestock households, agriculture-livestock integrated households, and scientific and technological service households. In building grasslands, we should emphasize the work having measures suit local conditions, giving different guidance to different cases, and

stressing practical results. Pastoral areas should give prominence to building small pastures for breeding animals in places with water resources, with the emphasis on improving and building semi-artificial pastures. Rural areas and semi-rural and semi-pastoral areas should focus their energy on developing artificial grass growing and should make full use of crop straws to vigorously popularize new processing technologies, such as grinding straws into powder, absorbing sugar from straws, ammoniation, and alkalization, in order to expand the source of forage grass and fodder. Based on developing commodity production and improving production conditions, pastoral areas should closely combine the construction of anti-disaster bases and commodity bases and should accelerate the construction of these bases. In rural, semi-rural, and semi-pastoral areas, effective measures should be rapidly adopted to boost the production of hogs and the development of poultry breeding. In particular, suburban areas should accelerate the building of vegetable and foodstuff production bases in order to ensure the market supply. In developing commodity production, special attention should be paid to improving the breed of livestock, raising the individual output value, intensifying the construction of livestock service systems, and building comprehensive livestock service stations in all sumus within 2 or 3 years. Continued efforts should be made to popularize feasible and applicable sciences and technologies, such as building enclosing walls for pastures, sowing grass seeds by plane, improving the breed of animals, using plastic sheets and greenhouses, and using anthelmintic in early spring, in order to effect "stable-yield, high-quality, and high-yield" animal husbandry.

We should vigorously develop forest production; put more river valleys under control; and successfully build the farmland shelter-forest, sand-stabilizing bush forest, and bush-grass lawns. We should strive to fulfill the task of the second-stage shelterbelt of North, Northeast, and Northwest China. We should make constant and unremitting efforts to grasp tree- and grass-planting and strive to raise the plant-covering rate and improve the ecological environment. At the same time, we should attend to developing and building forest areas, continue to intensify the management of forest affairs, administer forest areas according to law, give protection to forests and grassland, and actually strengthen fire prevention.

We should attach importance to developing the aquatic products breeding, expand the water areas subject to intensive breeding, popularize advanced technologies, and strive to raise the per-unit yield of aquatic products.

To develop the commodity economy in rural and pastoral areas and readjust the production setup, we should achieve breakthroughs in township enterprises, and gradually turn them into major pillars of the economy of rural and pastoral areas. Governments at various levels should formulate preferential policies to support and encourage the development of township enterprises. We should give full play to the diffusive role of cities and

take the road of making cities lead urban areas and achieving integration of urban and rural economies. We should give a free hand to developing enterprises run individually or jointly by households, or jointly by villages and townships, and encourage lateral association and cooperation. We should emphatically develop mining and building material industries and the processing of farm, animal, and forestry products. We should achieve an increase of 100 percent or more in the output value of township enterprises throughout the region within 5 years.

We should continue to strengthen leadership over work to support the poor, work out preferential policies, and mobilize forces from society to support and help old revolutionary base areas, minority nationality areas, and border and poverty-stricken areas to develop production, eliminate poverty, and achieve affluence as quickly as possible.

C. We should accelerate industrial development based on improved economic results.

The status of industrial production has a great influence on the national economy of the entire region, and the acceleration of industrial development plays an extremely important role in increasing supply and accumulation and in stabilizing the entire economy. By the year 1992, the industrial output value of the region should reach 18.1 billion yuan, an increase of 49.6 percent over 1987, and an annual growth rate of 8.4 percent. In developing industry, we should always consider improving economic results to be the central task, and should expand production by upgrading technology and improving management. We should accelerate technological progress, improve product quality, and strengthen enterprise management.

In accelerating technological progress, we should focus on developing new products, bringing in and applying new technologies, improving the quality and property of products, conserving energy and raw materials, carrying out comprehensive utilization, and eliminating environmental pollution so as to achieve the optimum combination of enterprises' major elements for production. In technological development, we should effect three changes: First, we should change the dominance of support through investment into the dominance of support through policies. Second, we should change the dominance of mandatory plans into the dominance of guidance plans. Third, we should change the dominance of administrative means into the dominance of economic and legal means. All enterprises should enhance the sense of development and strengthen their cooperation with scientific research institutes and personnel. In technical transformation, we should persist in a high starting point, carry it out at various levels, adopt as much advanced technology as possible, and gradually base industrial production on new technology. Concerning imported technology, we should successfully master, apply, and improve it, and produce it at home so as to

maintain the relatively advanced nature of imported technology. To accelerate technical transformation, we should assign the priority of energy resources, raw materials, and fund supplies to the production of products that adopt advanced domestic and world technologies and earn foreign exchange through expanded export, and to projects that experiment with major scientific research findings, and give them such preferential treatment as specialized low-interest or discount loans and allocations. In making investments in technical transformation, we should ensure key projects and invest in the best projects. We should introduce the mechanism of competition and openly invite bids for major technological development projects. Through hard work, we should raise the technology of more than 40 percent of our region's major industrial products to the advanced level of the same trades in the country.

Product quality is an important criterion for judging economic results. All industrial enterprises should always persist in improving product quality, attach importance to the marketability of products, create an environment in which all sectors pay attention to product quality, and enhance the sense of respect for the quality of production, management, and service departments. By starting with improving methods of production and quality inspection and intensifying ideological education and cultural and technical training of the workers, we should perfect quality control organs, adopt international standards in a planned and orderly manner, comprehensively popularize quality control, establish quality guarantee systems and resolutely exercise the power to reject poor quality so as to support good quality and eliminate poor quality. Product quality should be judged by markets and consumers are the ultimate "chief judges." Through market competition, we should stimulate enterprises to facilitate technological progress and encourage them to improve product quality and put pressure on them to do so. Over the next 5 years, we should organize enterprises to develop 1,000 new products every year, bringing the product updating rate to more than 10 percent, and increase the proportion of new products to about 60 percent by 1992.

Most industrial enterprises of our region are relatively backward in technology and equipment and are even more backward in management and operation. However, poor management, lax systems, and the low quality of workers and staff have frequently been covered by backward technologies and equipment. This is an important reason for the poor economic efficiency of enterprises. At most enterprises, there is serious waste of equipment and manpower. Therefore, exerting great efforts on strengthening management is the most practical and abundant of resources convenient to be utilized and provides the most ready-made potential. We should penetratingly conduct the campaign of increasing production, practicing economy, increasing revenues, and reducing expenditures; establish and improve various managerial systems within enterprises; and fully mobilize the initiative and creativity of the large number of

workers and staff members. We should presently universally popularize the "full workload method" and try out the "in-plant banks" among enterprises to make the best use of human, financial, and material resources, as well as various other major elements of production to improve work and economic efficiency and push enterprise management to a higher level.

All enterprises should pay attention to safety in production, strictly observe regulations for safe production and operation, strengthen the management of basic safety facilities and regular safety inspections, and make great efforts to eliminate hidden perils.

D. We should positively readjust the investment structure and concentrate our energy on ensuring the construction of key projects.

Grasping and accelerating the construction of key projects is a fundamental guarantee in gaining more momentum for economic development and for effecting sustained and steady growth in the economy. Proceeding from the principles of exploiting local advantages, rationalizing the distribution of productive forces, and perfecting the industrial structure, we should strive to initiate a number of more key projects.

The tenure of the current regional government was covered by the last 3 years of the Seventh 5-year Plan and the first 2 years of the Eighth 5-year Plan. We should concentrate our efforts on rapidly building those newly-initiated, expanded, and continued large and medium-sized projects that are already considered key projects of the state and the region, and should ensure the construction quality of these projects and that they are being built and will be completed on schedule. The following are major projects include: the Junggar ming area with a production capacity of 15 million tons; the Huolinhe ming area, with a production capacity of 10 million tons; the Zhalainguoer ming area, with a production capacity of 3.3 million tons; the Dongsheng Coalfield, with a production capacity of 3 million tons; the Haibowan mining area, with a production capacity of 1.95 million tons; the Dayan ming area, with a production capacity of 1.5 million tons; the Pingzhuang mining area, with a production capacity 1.2 million tons; the Wuda ming area, with a production capacity of 1.2 million tons; the Hohhot City Coking Plant, with a production capacity of 250,000 tons; the first-phase project of the Fengzhen Power Plant, with a production capacity of 400,000 kw of electricity; the second-phase project of the Tongliao Power Plant, with a production capacity of 400,000 kw of electricity; and the project of the Nos. 1 and 2 Baotou Power Plants, with a production capacity of 300,000 kw of electricity. Railway transport projects include: rebuilding and double-tracking the Datong-Baotou railway, rebuilding and double-tracking the Binzhou railway, building the Baotou-Shenmu railway, and building the Jining-Tongliao railway. Industrial raw materials projects include: expanding the steel and iron production

lines of the Baotou Iron and Steel Plant, with a production capacity of 2.5 million tons; the Jilantai Soda Plant, with a production capacity of 200,000 tons of soda ash; the Changannaoer Soda Mine, with a production capacity of 500,000 tons of natural soda, and a processing capacity of 50,000 tons of sodium bicarbonate and 50,000 tons of caustic soda; and expanding the Haibowan Glass Plant, with a production capacity of 980,000 heavy boxes of glass. Light and textile industrial projects include: The Shanba Sugar Refinery, with a daily refining capacity of 1,500 tons of beets; the Jining Woolen Textile Mill, with a production capacity of 4,800 spindles of fine fabric; and the Hohhot City Chemical Fiber Mill project, with a production capacity of 2,000 tons of polyester long silk. In water conservancy, there is the 200,000-hectare drainage and irrigation facilities project of the Hetao area in Bayannur League. In animal husbandry, there is the beef cattle breeding project with the joint investment of China and the United States. In addition, the region has basically completed construction of the oil extraction and transmission facilities, the 1 million-ton oil refinery, the 520,000-ton Urea Plant, and the heavy-duty truck production line built by the Nos. 1 and 2 Inner Mongolia machinery plant with imported foreign capital. We should also strive to newly build the Wuhai integrated chemical industrial enterprises. Upon completion, these projects will consume a total of 25 billion yuan in investments, form more than 20 billion yuan in fixed assets, and newly add more than 12 billion yuan in output value—equal to the current total industrial output value of the region. Until that time, our region's economic strength and development momentum will be enhanced greatly, and economic growth will be still faster than that at present. Meanwhile, these projects will pay a decisive role in realizing the three short-term fighting goals.

The serious shortage of funds in accelerating the region's program of economic construction constitutes a considerably prominent contradiction. Measures to deal with this contradiction are to continuously implement the principle of "three ensures and three curtails," to resolutely curtail the unimportant and nonproductive construction projects outside the plan, to orient social funds outside the plan on key projects, to attract funds by relying on policies and climate, and to expand the channels that introduce funds.

While doing a good job in building key projects, efforts should be made to integrate the work of readjusting the structure of investment with that of perfecting the structure of production. In coping with the problem in which the region's economic structure is not considered reasonable, the tendency to readjust the structure of investment should be fixed in line with the new situation and new opportunities and efforts should be made to further realize the strategy of turning natural resources into products. We should also pay attention to harmonious development among agriculture, animal husbandry, and forestry, as well as to light and textile industries and the

foodstuffs industry. Attention should also be paid to upgrading the standard of self-sufficiency in consumer goods and to curtailing the outflow of funds.

In deepening the drive to conduct systematic reforms, efforts should be made to enhance the professional management of the construction industry and management over construction markets to ensure the construction of key projects, to generally enforce public bidding and the contract system among capital construction items, to shorten periods of construction, to lower construction prices, and to upgrade construction work quality to ensure investment results.

In conducting production and construction, efforts should be made to earnestly enhance environmental protection and to uphold the principles of formulating simultaneous plans for economic and urban construction and environmental protection and of achieving simultaneous development among them.

E. We should actively develop foreign economic relations and trade and vigorously carry out lateral economic cooperation.

Developing foreign economic relations and trade has played a most important role in scoring an increase in the national economy. During the upcoming 5 years, we should actively expand the scale of opening to the outside world, enhance lateral cooperation, and gradually establish a new, joint, and unified pattern in foreign economic relations and trade at all levels and with multiple channels and styles. Efforts should be made to further enlarge the right to self-determination of foreign trade enterprises and to bring into play the enthusiasm of various social circles so as to earn more foreign exchange by increasing exports. Enterprises or enterprise associations throughout the region, the conditions of which are suitable to the regulations put forth by the state and that can earn more than \$3 million in foreign exchange annually, that can be responsible for their profits and losses, that can conduct independent accounting, and that can take state assignments on earning foreign exchange through exports, will be able to engage in foreign trade with the approval of their higher authorities. Efforts should be made to consider foreign trade corporations leading units, to vigorously promote cooperation between industry and trade, to enforce the system of acting as agent, to widely open trade channels, and to relax restrictions on business management. We should uphold the principles of considering exports in foreign trade a main task and of integrating exports with imports, domestic sales with foreign sales, and cash trade with barter trade so as to gradually realize comprehensive management over foreign trade. The autonomous region has achieved great development in border trade with the Soviet Union and the People's Republic of Mongolia and should strive to open markets in eastern Europe.

Efforts should be made to further enhance economic and technical cooperation with the outside world and to enlarge imports and manpower exports. Meanwhile, we should do a good job in vigorously operating the existing "three capitals" enterprises inside the region and learn from foreign advanced technology and managerial experience to upgrade our standard in production and management.

Governments at all levels should enhance their leadership over work to open to the outside world and establish lateral cooperation and, by bearing in mind their actual local situations, formulate attractive policies to develop joint-venture businesses, independently funded businesses, cooperative production, compensatory trade, and joint production of famous trademark commodities with both foreign and domestic counterparts and with advanced regions inside the country. They should actively introduce funds, technologies, talented personnel, and crucial equipment to steadily enhance the region's practical strength in economic development and to accelerate the pace of economic development.

Developing lateral economic and technical cooperation and coordination constitutes a road along which we can have less investment and achieve fast results and great benefits. Our work emphasis should be placed on introducing technologies and managerial experience and attracting talented personnel and funds. We should develop associations that center on the production of famous trademark and fine-quality commodities and that are with large and medium-sized enterprises as key units; associations between scientific research and production; associations between military and civilian industries; associations between localities that produce raw materials and processing industries; and associations between industry and agriculture, trade, commerce, and among commercial firms and medical and public health units, so that we can make use of outside forces to enhance our internal vigor. Efforts should be made to uphold the principle of paying simultaneous attention to associations both in and outside the region; to breaking the demarcation line among regions, industries and trades, and various ownership; and to forming small cycles with different scales or scopes so as to elevate the region's lateral associations to a new stage.

F. We should adhere to the orientation of gearing scientific, technological, and education work to the needs of economic construction and facilitate their development.

The competition of the commodity economy in modern society is, in the final analysis, a competition of personnel and technology. The various departments in charge of the national economy should have more initiative and feel it more urgent to rely on scientific and technological progress, and should use advanced and applicable technology to transform traditional industries and develop new industries. Scientific and technological departments should shift their work focus to economic construction, which is the major battlefield, formulate and implement

scientific and technological development plans, and starting with solving urgent problems in economic construction, render good technical service and facilitate the development of productive forces. Over the next 5 years, the focus of scientific and technological work is to successfully popularize applied and development research and scientific and technological findings, and, in particular, to greatly facilitate the progress of such pillar industries and infrastructural facilities as agriculture, animal husbandry, forestry, energy, raw materials, transportation, and telecommunications. We should accelerate implementing the "spark plan" to promote the commodity economic development of the vast rural and pastoral areas. Meanwhile, we should intensify research on basic science to maintain strength for sustained economic development.

To expedite scientific and technological progress, we should continue to deepen scientific and technological structural reform. The short-range focuses of the reform are as follows: First, we should relax control over and invigorate scientific research organs, extensively institute the director responsibility system and the research task contract system, and introduce the mechanism of competition into contracts. Scientific research departments currently managed by the state are allowed to experiment with the separation of ownership and management power if their conditions are ripe. In their distribution, we should also institute the contract responsibility system, distribute according to work, and eliminate egalitarianism. Scientific research organs and enterprises may be contracted or leased to each other, purchase stock from each other, or transfer their property rights to each other. We should work out policies to encourage scientific research units to combine research by application, establish various types of technological development centers, adopt various measures to directly enter the economic sphere, establish and develop new types of scientific research and production entities geared to the needs of domestic and world markets, and open up scientific and technological credit organs and risk-taking investment organs that can promote changing scientific research achievements into commodities. We should support and facilitate the development of the scientific research organs of collective, individual, and private ownerships, and allow them to compete with state scientific research organs on equal conditions. Second, we should relax control over the invigorate scientific and technical personnel, and encourage them to go the forefront of production to work on a contract basis and render service. We should allow scientific and technical personnel to leave their posts, maintain their posts while having their wages suspended, or resign from their posts to lease or contract the operation of, or to head small and medium-sized enterprises, or township enterprises, or open up various types of technical service organs. Meanwhile, we should allow scientific and technical personnel to have second or third jobs after completing their own work, and protect their legal income earned from the jobs. We should strengthen scientific and technological legislation, and include the study and

formulation of scientific and technological laws and regulations over the entire process of scientific and technological work.

Educational development is the foundation for developing the economy. Governments at various levels should attach great importance to education, mobilize the initiative of various quarters of society to run schools at various levels through various channels and measures, and comprehensively develop the region's education. Over the next 5 years, urban and rural areas throughout the region should actively and steadily implement the 9-year compulsory education system after making elementary education universal; greatly develop vocational, technical, and secondary specialized education; and facilitate the comprehensive development of ordinary and adult education. We should continue to emphatically develop the education of minority nationalities on a priority basis to cultivate more talented people from the minority nationalities. We should further reform and improve the ordinary education management system, mobilize the initiative of the various quarters of society to develop schools, arouse the initiative of educational departments, and increase the vigor and impetus of schools. We should further reform and readjust the structure, level, and geographical distribution of schools, reform the curricula and teaching methods; and comprehensively improve the quality of instruction. The disciplines of the institutes of higher learning should be established in such a way that they suit still better the needs of the region's economic construction. We should strengthen the function of overall management of elementary, vocational and technical, secondary specialized, and adult education; put more effort into education at and below the secondary level; and gear our work toward training a large number of medium-grade and primary technical personnel who meet the needs in economic construction and social development, and toward improving the quality of the masses of laborers. We should reform the enrollment system, and the graduate job distribution system; increase, in a planned manner, the proportion of the students recruited, trained and assigned according to what is needed; and expand the road along which trained personnel go to rural and pastoral areas and grassroots enterprises.

We should promote scientific and technological progress and develop educational undertakings; further implement the policies on the use of intellectuals; protect and encourage intellectuals' working enthusiasm; actually solve existing practical problems and difficulties; and further cultivate a fine social atmosphere that respects knowledge, talents, teachers, and education. Scientific, technological, and educational workers should plunge into the region's economic construction, and dedicate their wisdom and intelligence to economic construction. We believe that the vast number of scientific and technological workers will certainly be able to win respect and love from the people of all nationalities throughout the region with their labor enthusiasm.

G. We should strengthen the building of the socialist spiritual civilization and the legal system.

In line with the practice of reform, opening-up, and economic construction, we should make ceaseless efforts to strengthen and improve ideological and political work; effectively conduct education on lofty ideals, moral integrity, knowledge, and the sense of discipline; enhance the people's realm of thought; and correctly handle relations between the interest of individuals and that of collectives and the state, between immediate and long-term interests, and between partial and overall interests. In addition, we should carry forward the traditions of building up the country through thrift and struggling arduously; intensify the sense of being the masters of the country; cultivate a fine social morality; and arouse the people's spirit of selfless dedication. We should also conduct, in a penetrating and sustained manner, the study of Marxist theory on national affairs; strengthen education on patriotism and national unity; constantly safeguard and consolidate the unification of the motherland; further develop new nationalities relations characterized by equality, unity, mutual aid, and friendship; and promote common development and prosperity of all nationalities. We should conduct, in an extensive and sustained manner, education on the basic line of the initial stage of socialism; concentrate our attention on production and construction; emphatically change ideas and concepts; intensify the sense of commodity economy; and encourage the pioneering spirit of making progress.

Cultural, public health, sports, family planning, press, publishing, radio, television, and film departments all shoulder the important task of building the spiritual civilization. Cultural and art departments should persistently serve socialism and the people, conscientiously implement the principles of letting a hundred flowers blossom and a hundred schools of thought contend, and attend to reforming themselves. In management, cultural and art departments should allow the coexistence of diverse forms and sectors, and use even better and more spiritual products to reflect the prevailing scene of our ages and to stimulate the enthusiasm of the vast number of the masses in plunging into socialist modernization. Public health departments should implement the principle of combining prevention with curing diseases, emphasizing prevention; strengthen popularization of medical science and foodstuff sanitation; strengthen maternity and child care work; pay attention to developing the nationalities medical sciences; and continue to strengthen medical treatment and the prevention and cures of endemic diseases in old revolutionary base areas, minority nationalities areas, border areas, and poverty-stricken areas. Because family planning is a basic national policy, we should firmly and unswervingly control population growth, improve the quality of our people, and enable the regional natural population growth rate not to exceed the state-stipulated standard. We should extensively conduct mass sporting activities,

positively select and train excellent sportsmen, consolidate and enhance the training of key and superior sports items, and further enhance the sports level, to win even greater honor for the region.

Socialist democracy is a manifestation of socialist spiritual civilization in the political field. Governments at all levels should intensify the sense of democracy, and establish the social consultation and dialogue systems. For major policy decisions, governments at all levels should conduct democratic consultations, distribute work reports, invite pertinent personnel to provide advice, and solicit and listen to opinions from various fields so that they can open their work to the masses, let the masses understand their work, and raise their policy-making level.

Socialist democracy and the legal system are an organic whole. We should take the initiative in bringing our various work into the orbit of the legal system; further intensify education on the legal system; strengthen economic legislation and judicial work; reinforce industrial, commercial administrative, auditing, and supervisory departments; and wage struggle against various law and discipline violations. We should improve the contingents of public security, procuratorial, and judicial personnel; continue to adhere to the principle of tackling public security problems in a comprehensive manner; deal blows to people guilty of serious crimes and economic offenses promptly and strictly; and ensure a stable improvement of public security and social order.

We should further improve border defenses, reinforce the all-people national defense education, and the militia and reserve forces work; strengthen border management; pool the efforts of the army, the police, and the people to defend and develop border areas; and make new contributions to socialist construction.

The people's congress system is the fundamental political system of our country. Governments at various levels should voluntarily subject themselves to the supervision of people's congresses at various levels and their standing committees, and implement their resolutions with a highly responsible spirit. Meanwhile, governments at various levels should also conduct democratic consultations with CPPCC committees at various levels and various democratic parties and welcome the people from various circles to participate in and discuss political affairs. We should give full play to the role of trade unions, CYL committee, and women's federations in organizing and contacting the masses, and mobilize forces from society to supervise government work.

The 13th party congress included the political structural reform on the agenda in a timely manner. This was an inexorable requirement of the economic structural reform. The key to the structural reform of government organs is to separate government functions from business management, simplify administration, delegate power to lower levels, change functions, and gradually

change the direct management mainly through administrative means into indirect management mainly through economic and legal means. Governments at various levels should be honest and upright in performing their duties, and government personnel should also be honest in performing their duties. Regional departments, in particular, should set an example for lower levels to follow, and leading cadres should set an example for the masses of cadres. We should work out explicit rules and regulations to strictly enforce administrative discipline, and increase their binding force. Meanwhile, we should resolutely struggle against various corrupt phenomena through supervision by law, by supervisory and auditing departments, and through the media and public opinion. After investigations and study, government organs should reform their organizational and personnel systems, and with the establishment of a compact, efficient, and united cadres contingent as the target, introduce the contract system into the organs, exercise management by objective, conscientiously overcome bureaucracy, improve workstyle, raise work efficiency, and serve the people wholeheartedly.

Fellow deputies: We have scored encouraging achievements on our journey to modernization and have laid a more solid foundation for our progress. Despite the numerous difficulties, our region will have brighter prospects for its economic and social development with the support and supervision of fellow deputies and people from various circles and the concerted efforts of the more than 20 million people of various nationalities throughout the region. Under the leadership of the party Central Committee, the State Court the regional party committee, let us conscientiously implement the guidelines of the 13th party congress and the 1st session of the 7th NPC, deepen reform, bravely conduct opening up, work hard in unity, make progress with dashing spirit, fulfill the three short-range fighting goals for our region's economic development, and strive to build a united, prosperous, and civilized Inner Mongolia!

LABOR

'Important Social Benefits' of Unemployment
40060402 Beijing JINGJI CANKAO in Chinese
13 Jun 88 p 4

[Article by Zhang Guangzhu [1728 1639 2691]: "Unemployment Inevitable in Initial Stage of Socialism"]

[Text] Hidden unemployment, also known as on-the-job unemployment and over-staffing, means that while a person is employed in name, he has nothing to do in fact. It also refers to situations where five people do the work of three or three people fulfilling one person's work quota. Today, hidden unemployment has become very serious in China. According to estimates by the departments concerned, at least 13 percent of the work force in the metallurgical industry nationwide are redundant, as are 30 percent of the workers in industry, transportation, and construction in Liaoning Province. In 1983, hidden

unemployment in Shanghai was as high as 14 to 25 percent, involving 700,000 to 1.2 million people. Even in the better managed mechanical industry, the effective daily labor per capita was less than 4 hours. Labor economists estimate that excluding redundant rural labor, there are about 20 million redundant workers in Chinese enterprises throughout the country, costing the state 40 to 50 billion yuan each year.

Does hidden unemployment amount to unemployment? How does it differ from capitalist unemployment? Are there similarities between them?

Under capitalism, unemployment manifests itself socially. To distinguish it from hidden unemployment, we can call it social unemployment. In traditional theory, as capitalist accumulation increases and the organic component of capital goes up, constant capital as a share of total capital rises steadily while the proportion of variable capital declines. Meanwhile, labor supply has not dropped. Under these circumstances, the more capital accumulates, the more workers are squeezed out by technology and machines, thus losing employment opportunities.

The displacement of workers by advanced technology and machines, however, is not a monopoly of capitalism. Practice proves that under socialism, the technical component of capital too increases constantly in the wake of capital accumulation and scientific and technological progress, thus giving rise to the displacement of man by machine. Scientific progress and the steady expansion of the technical component of capital are an objective law of the development of productive forces. Every enterprise applying advanced technology will inevitably have more and more redundant labor. This is true for socialist as well as capitalist enterprises.

The distinction lies in the handling of redundant labor. Capitalist enterprises do not keep redundant workers because that would increase labor costs and eat into their profits. These enterprises, therefore, dump their redundant workers on society, thereby creating an army of unemployed. Under the old system in China, neither theory nor policy allowed the existence of unemployment or the dumping of redundant labor on society. As a result, redundant workers settled down as the on-the-job unemployed within the enterprise and became a synonym for the hidden unemployed. In a commodity economy, socialist enterprises necessarily tend to maximize profits. Consequently, they too seek to lower labor costs by passing redundant labor onto society. Clearly the cause of unemployment is rooted in the commodity economy.

Unemployment, Socialized Mass Production, and the Commodity Economy

Unemployment is a manifestation of the inherent demands of socialized mass production and the commodity economy.

In accordance with the requirements of the social division of labor and the commodity economy, the allocation of elements of production must comply with two principles. First, the law of proportional distribution of labor time, that is, distributing human labor and material labor to various industries and economic sectors in accordance with social need. Second, the law of the optimal combination of elements of production, that is, combining labor and elements of production optimally and combining laborers optimally.

The two principles—proportional distribution of labor time and the optimal combination of elements of production—objectively require that the reproduction of elements of production and that of labor be coordinated in quality, quantity, structure, distribution, and growth rate. If there is an imbalance, part of the elements of production is bound to be squeezed out and become idle, whatever the prevailing social system.

The point is that unemployment (in whatever form) is inevitable in China in the initial stage of socialism because the development level of productive forces and the standards of social economic management still remain quite backward, incapable of consciously maintaining an appropriate proportion and dynamic balance between population, labor, means of livelihood, and means of production regularly. Its tangible manifestations are:

1. The level of productive forces in the initial stage of socialism is still fairly backward. At the same time, the Chinese population is multiplying rapidly. This determines that labor reproduction exceeds the reproduction of means of production and that total labor supply outstrips the objective needs of economic development. Under these circumstances, unemployment cannot be totally avoided no matter what we do. While we may turn social unemployment into hidden unemployment by adopting the policy of "high employment, low wages," we cannot get rid of unemployment itself, the result of labor oversupply.

2. On the microeconomic level, a rising labor productivity in an individual enterprise or sector is bound to create redundant labor relative to the needs of the enterprise or sector. If the enterprise or sector does not carry out extensive reproduction, its employment capacity will diminish. The diminishing of employment capacity in an enterprise or sector as a result of productivity gains can occur under two sets of circumstances: 1) Technological progress increases the technical component of the enterprise or sector, leading to the displacement of man by machine; and 2) An improvement in management standards leads to the optimization of the allocation of elements of production, resulting in redundant labor. This point was made particularly clear in economic reform. Unemployment, therefore, cannot be avoided.

3. On the macroeconomic level, rising social productive forces will necessarily cause the industrial structure to become more and more diversified and complex, thereby shifting social labor from traditional to new industries. For a variety of reasons, for instance, their knowledge and skills may have become obsolete and unsuited for the requirements of new jobs, there will always be some workers who temporarily languish in this shift from old to new industries and become the mobile unemployed.

4. China's educational backwardness during the initial stage of socialism determines the relatively poor quality of the overall culture and technology of the entire nation. Moreover, the irrationality of the education system means that the workers and trained personnel it turns out often do not meet the needs of economic development. The upshot is structural unemployment.

For the above reasons, unemployment is unavoidable in China in the initial stage of socialism. The question now is not whether unemployment exists, but how to understand unemployment in the initial stage of socialism correctly and what should be done to tackle it.

The Positive Significance of Turning Hidden Unemployment into Social Unemployment

What hidden unemployment gains in short-term social stability and superficial full employment, it loses in long-term efficiency and the rapid development of productive forces, resulting in internal consumption and inertia, which are not compatible with the intrinsic requirements of the development of productive forces and a commodity economy. Social unemployment certainly means a drop in living standards and mental anguish for the unemployed and may create social unrest and all kinds of social and political problems. Nevertheless, not only does social unemployment make economic sense, but it also has important social benefits:

—Social unemployment reveals fully and promptly whether the two production ratios are in harmony. Also, it prevents consumption funds from expanding too rapidly and compels people to revise their ideas about having children, thereby accelerating changes in fertility patterns. While population growth is constrained by a variety of elements, unemployment and the labor market mechanism are clearly one of the most important factors regulating population and the labor force, hence the proportionate relations of social production.

—Social unemployment goes hand in hand with the labor market. Unemployment and the creation of a socialist reserve army are indispensable to a socialist labor market. As a "reservoir" and a "transfer station" in the circulation and transfer of the labor force, the industrial reserve army expands and contracts in response to changes in labor supply and demand. It absorbs redundant workers from enterprises and sends

out needed workers, thus ensuring the circulation and transfer of workers and qualified personnel.

—Social unemployment introduces the risk mechanism into the competition for jobs and brings an end to the

sloppy, complacent, and muddle-through mentality. If material incentives are the "pull" factor in competition, then risk, bankruptcy, and unemployment are the "push" factors.

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Rocket Force Develops Engineering Allocation System

40050374a Beijing JIEFANGJUN BAO in Chinese
22 Jul 88 p 1

[Text] The long history of PLA signal departments relying on manual labor to plan and make estimates for the organization of engineering construction work has come to an end. The PLA's first "Automated Management System for Signals Engineering Planning," developed by the Signals Department of Second Artillery [China Strategic Rocket Force] Headquarters, was technically certified at the ministerial level on 15 July.

This automated management system uses systems analysis methods to organically organize manpower, materials, and funds, and through microcomputer processing scientifically manages the estimation of expenses, prices, and construction plans. Operators need only to enter, based on construction blueprints, the codes for expenses, engineering quantities, and related parameters, and the computer will then automatically print out a beautifully clear document showing engineering construction estimates, improving work efficiency 30 times. Specialists feel this system is clearly economically effective and has potential for broad applications.

Short Bio on Rocket Force Retiree

40050374b Beijing JIEFANGJUN BAO in Chinese
18 Jul 88 p 1

[Excerpts] Li Su [2621 5685], former commander of a certain Second Artillery Corps [China Strategic Rocket Force] unit, was born in 1923. He entered the service in 1941 and the Party in 1945. His assignments included aide, company commander, battalion commander, regimental commander, deputy commandant of a certain artillery school, and commander of a certain unit. He was the PLA's first commander of a strategic missile battalion and successfully organized China's first launch of an indigenously developed missile. He was promoted to colonel in 1964 and retired in April 1987.

Li Su authored scientific articles, including "Thorough Protection Is an Important Premise for Guaranteeing the Completion of the Nuclear Counterattack Mission," "Improving the Quick Reaction Capability of the Strategic Rocket Force Is the Core of War Preparedness Work," "A Discussion of Several Problems Concerning Strategic Rocket Force Mobile Operations," and "Questions on the Building of Strategic Missile Reserve Forces."

He also assisted the Second Artillery in filming the videotape "Combat Operations of a Certain Type Missile Battalion," and traveled to the southern border to produce a training film for a certain type missile.

PLA Forms Airborne Unit

HK2406074888 Beijing JIEFANGJUN BAO in Chinese
14 Jun 88 p 1

[Report by correspondent Tan Jun (6223 6511) and reporter Hong Heping (3163 0735 1627): "A 'Fist Battalion' of a Certain PLA Airborne Unit"]

[Text] A certain PLA Airborne Force Army has trained a "proud favorite." It is the pick of the bunch in training, and a fist in combat operations. It has enjoyed preference treatment in varying degrees to ensure its success in various aspects. People call it a "fist battalion."

A video tape describing the training of the "fist battalion" training has broadened our journalistic field of vision. The training takes place in Xiao Hingan Ling in winter. After a flight of more than 4 hours in a long-range air transport, the "fist battalion" landed on a field of ice and snow to carry out field operations and survival drills training in a frigid zone for 2 weeks. The battalion fighters lived in remote, thickly forested mountains. For a 3-day period each was provided with only 1.5 jin of grain and 3 jin of salt, without any nonstaple food. They had to rely on their own efforts to hunt birds and wild rabbits to allay their hunger. Carrying a weight of 20 kilos each they marched through ice and snow for more than 400km, crossing 39 large and small mountains, and wading across 17 icy rivers. They have successfully achieved a complete set of experiences for airborne forces executing their combat operations, and fighting for their survival in bitterly cold weather. During the hot summer the battalion carries out its training in Shiwan Dashan (a place surrounded by numerous mountains). The fighters of the "fist battalion" are airlifted to the hot area to conduct field operations and survival training. Each fighter is provided with 0.5 jin of rice and 1 liang of salt. Sheer cliffs stand like walls, the forest is thick, and grass grows luxuriantly. Wisterias twine around everywhere, there are clouds of poisonous insects, and the ground temperature is as high as 50 degrees centigrade. Under such conditions our fighters climb the mountains and traverse the forests undergoing their extremely strenuous training.

The "fist battalion" has conducted its airborne operational exercises and survival drills under various kinds of complicated topographical conditions including primeval forests, desert, a network of rivers, marshland, and so on. At present, without any prior preparation, the "fist battalion" can reach any location in our country within 12 hours to carry out its combat operational task.

A veteran paratrooper who had inspected parachute troops in a west European country, said: "The 'fist battalion' is comparable to any parachute troops in any advanced country in the world in terms of its parachute jumping skills, its field operations, and survival capability."

The "fist battalion" has enjoyed preferential treatment in a certain unit of the PLA Airborne Force. It has been exempted from several tasks such as production, construction, noncombatant duty, and so on, with the exception of raising pigs and planting vegetables in the companies under the battalion, so that it can concentrate its efforts on training. With regard to the provision of cadres and soldiers, priority is given to the "fist battalion" to ensure the quantity and quality of its cadres and soldiers. Approval from higher authorities is to be obtained if any cadre or soldier in the battalion is to be transferred. The battalion has also enjoyed preference treatment in terms of funds for training, equipment, and facilities. When a certain brigade was arranging funds for training last year, the funds allocated to the "fist battalion" were 100 percent higher than funds for other battalions. This year higher authorities provided a certain brigade with two 40mm RPG laser firing trainers, and target signaling devices for light weapons. The "fist battalion" has priority in using them. The supply of edible oil for the "fist battalion" is $\frac{1}{3}$ more than other battalions. Since the battalion has to undergo very strenuous training, its fighters eat more food. The logistics departments have given special consideration to the battalion in this regard. When the "fist battalion" lacks something, efforts are immediately made to satisfy its demand as long as the items needed are available.

Of course, training standards followed by the "fist battalion" are much more higher than other battalions. Let us take gymnastics on apparatus as a example. Other

battalions are required only to pass the exercise, whereas the "fist battalion" must obtain a credit. As far as emergency muster is concerned, other battalions are required only to fulfill the task within the time set by the training program, but the "fist battalion" must fulfill the task within a period of time shorter than that stipulated by the training program. Last year, camp and field training was carried out, and a distance of 110km had to be traversed by other battalions within 4 days. However, the "fist battalion" had to fulfill the task in 2 days. The battalion also had to undergo 11 additional training items.

A comparatively stable policy has been implemented by a certain unit of the PLA Airborne Forces for the "fist battalion." According to the original plan, cadres and soldiers of the battalion are to be changed once every 3 years. After discussions, it has been decided this year that the period of change be properly extended. The "fist battalion" was established on the basis of a battalion of combat readiness after the streamlining of the troops. This kind of reorganization of the troops at different levels with emphasis being placed on key units has enabled the Airborne Forces to concentrate limited funds, equipment, and facilities on where they are needed most. This will also ensure that some units will have a stronger fighting capacity. Critical situations and eventualities can thus be effectively dealt with. Of course, such a training system is now under discussion. Practical methods are to be devised for solving a number of problems.

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